

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)

COMPLAINT OF TIME WARNER, INC.,)
ET AL., CONCERNING PERIODICAL)
RATES)

Docket No. C2004-1

VOLUME #2

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ORIGINAL

POSTAL RATE COMMISSION

In the Matter of:)
)
COMPLAINT OF TIME WARNER, INC.,)
ET AL., CONCERNING PERIODICAL) Docket No. C2004-1
RATES)

Room 300
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 2
Wednesday, June 30, 2004

The above-entitled matter came on for hearing
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. DANA B. COVINGTON, VICE-CHAIRMAN
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER

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C O N T E N T S

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Joseph E. Schick	334	465 530 586	588	595	---

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected direct testimony of Joseph Schick on behalf of Time Warner, et al., TW ET AL.-T-4	335
Corrected designated written cross-examination of Joseph Schick on behalf of Time Warner, et al., TW ET AL.-T-4	362
Responses of Joseph Shick to APWU, TW ET AL.-T-4-1	461

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Joseph Schick on behalf of Time Warner, et al., TW ET AL.-T-4	--	335
Corrected designated written cross-examination of Joseph Shick on behalf of Time Warner, et al., TW ET AL.-T-4	--	362
Responses of Joseph Shick to APWU, TW ET AL.-T-4-1	--	461

P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN OMAS: Good morning. Today, we will continue hearing testimony in Docket No. C2004-1 considering the complaint concerning periodical rates filed by Time Warner, et al.

The first item of business today is to discuss dates of future phases of this case. Participants will be given the opportunity to file evidence related to the testimony and arguments made by Time Warner, et al., in support of their complaint. The first issue I want to address is how much time participants think they will need to prepare and submit such evidence. Several participants have indicated that they intend to submit rebuttal evidence. One participant has already submitted written comments.

I will read for the record the relevant portions of the comments of the National Newspaper Association. "NNA intends to submit intervenor's testimony in this case. If NNA's testimony is required before Labor Day, it is highly unlikely that meaningful information will be available for the Commission's consideration." I would like to hear from other participants planning to submit testimony.

1 Mr. Rubin, is the Postal Service planning to
2 provide evidence in this case? If so, how long will
3 you need to prepare testimony?

4 MR. RUBIN: The Postal Service has not
5 decided yet whether it could file testimony, but it is
6 considering doing so. If it does file testimony, I
7 think it would be helpful to have until shortly after
8 Labor Day to do so.

9 CHAIRMAN OMAS: All right. Thank you, Mr.
10 Rubin.

11 Mr. Straus?

12 MR. STRAUS: Thank you, Mr. Chairman.
13 American Business Media intends to submit testimony,
14 probably at least as many witnesses as the
15 Complainants. It's very difficult for us to figure
16 out how long it would take to submit testimony without
17 knowing a procedural schedule. I know it's sort of an
18 "Alice in Wonderland," horse-and-cart kind of problem,
19 but until we know when the testimony has to be filed,
20 I can't find out from the potential witnesses whether
21 they are available.

22 There are a couple of witnesses that we know
23 we would like to use and others from the membership
24 who will be submitting testimony by ABM members
25 themselves, unlike the Complainants, and for them,

1 they have got real jobs, they are not consultants. We
2 could probably submit testimony for most of our
3 witnesses before Labor Day, but the submission of
4 testimony isn't the difficult scheduling problem in
5 these Postal Rate Commission proceedings; written
6 discovery is.

7 Once that testimony goes in, that witness
8 has to be available to turn around sometimes very
9 complicated, very data-intensive responses to
10 interrogatories within a couple of weeks. So after
11 the testimony gets submitted, there are at least a
12 month's worth of time that the witness can't go on
13 vacation, can't devote full time to his job, but has
14 to be available to answer what we expect will be
15 scores, hundreds, of interrogatory requests to our
16 witnesses.

17 As I said, we may have one or two witnesses
18 that are consultants, professional witnesses, for whom
19 it would be their job for that period of time to
20 participate in this case, but our witnesses are mostly
21 going to be people with real jobs.

22 So I was thinking about what I would say
23 today in the car on the way to work, and I think that
24 if we work together on some kind of a novel schedule,
25 it might accommodate everyone's interest, and by that

1 I mean having testimony that can be submitted at any
2 time until the cutoff date, and it appears that both
3 the Postal Service and NNA believe they can't get
4 testimony in before shortly after Labor Day, and that
5 may well be the case for some of our witnesses; we
6 just don't know yet.

7 But if we had a period for discovery per
8 witness rather than for the case, for example, if we
9 have a witness who is going to be available the last
10 two weeks in July and the first three weeks of August
11 but going away the last two weeks of August, and we
12 got his testimony in so that there would be, say, a
13 month for discovery on that testimony, and then it
14 would cut off, and so if you had a discovery period
15 for each discreet set of testimony so that the witness
16 could confidently take his summer vacation, and we
17 could still be fully responsive to interrogatories.

18 If it worked the other way, that testimony
19 is all due at a certain time, even filing it early
20 after there was a discovery period from that date
21 forward, even if we filed our testimony early, there
22 would be no guarantee that the interrogatories would
23 be submitted at the same time frame as the testimony.

24 So I guess I would like the Commission to
25 consider that type of schedule along with considering

1 the requests that it's very difficult to get witnesses
2 to have time to prepare testimony and to prepare
3 interrogatory responses in the month of August.

4 CHAIRMAN OMAS: Thank you, Mr. Straus. Are
5 there any other participants currently intending to
6 present responsive evidence? Would you come up to the
7 mike, please?

8 MR. BERGIN: Good morning, Mr. Chairman.
9 McGraw Hill also intends to present intervenor
10 testimony, and we concur in the remarks just made by
11 ABM filed by NNA and also made by the Postal Service
12 that a considerable period of time should be allowed
13 for the preparation of the intervenor testimony, and
14 also, as Mr. Straus pointed out, it would be difficult
15 to have an intense discovery period during the summer.
16 So our suggestion, like NNA's, would be that the
17 intervenor testimony be due after Labor Day.

18 CHAIRMAN OMAS: Well, we'll try to work with
19 you on that. Thank you, Mr. Bergin.

20 Mr. Burzio, do you have any comments on our
21 schedule at this point?

22 MR. BURZIO: The Complainants recognize that
23 a September filing date is reasonable. We think that
24 it should be shortly after Labor Day, and if Mr.
25 Straus wants to file his testimony earlier, it seems

1 to me he is free to file it at any time he chooses.
2 We would like to reserve the right for a short period
3 of written discovery, if we feel that it's needed, and
4 if not, I would so advise the chairman, and we would
5 rely only on oral cross. We would like to have an
6 opportunity, Mr. Chairman, to file surrebuttal or
7 rebuttal testimony to that that Mr. Straus and others
8 intend to file.

9 CHAIRMAN OMAS: Mr. Straus.

10 MR. STRAUS: I just wanted to make one thing
11 clear. We're not trying to say that there shouldn't
12 be discovery, but I may have a key witness who happens
13 to be available in August but not in September, and so
14 if I filed that testimony early, I would also want the
15 discovery at the same time as the testimony rather
16 than have a witness sitting there waiting for
17 discovery in August, but since the final testimony
18 date, say, is September 8th and discovery until
19 September 20th, that witness might not be available
20 from September 8th through 20th, but he would be
21 available after his testimony is filed, and I think we
22 can work with the Complainants on that. If my point
23 wasn't clear, I just wanted to clarify it.

24 CHAIRMAN OMAS: Does anyone else have any
25 comment on Mr. Straus's recommendations?

1 MR. RUBIN: Yes. There is some risk in Mr.
2 Straus's proposal, in that later testimony may be
3 related to the earlier testimony in some way or
4 engender a need to ask additional questions of that
5 previous witness, and we would need to consider that.

6 CHAIRMAN OMAS: Thank you, Mr. Rubin.

7 Mr. Burzio, do you have anything else to
8 add? Oh, Mr. Straus is up again.

9 MR. STRAUS: I should stay up here. I need
10 the exercise.

11 That shouldn't be a problem, Mr. Rubin. The
12 bulk of the questions are going to be going through
13 the testimony. If there's any additional questions,
14 they can be handled. What can't be handled is if
15 somebody is on vacation or is doing three jobs because
16 his two colleagues are on vacation is the 150
17 questions that come in in the first batch, additional
18 questions thereafter. I'm sure our witnesses, if they
19 are not available, we can find them if we hunt them
20 down.

21 MR. BURZIO: Well, we will certainly be
22 happy to start sending interrogatories to Mr. Straus's
23 witnesses whenever he files his testimony.

24 CHAIRMAN OMAS: All right. Thank you, Mr.
25 Burzio.

1 Well, thank you all for your comments, and
2 we'll take them under advisement and schedule the
3 dates for submitting rebuttal testimony early next
4 month. The Commission practice is to allow discovery
5 on responsive testimony. Shortly after the next round
6 of testimony is filed, I will ask participants to
7 indicate how long they will need for discovery.

8 Does any participant have a procedural
9 matter to raise at this time?

10 (No response.)

11 CHAIRMAN OMAS: Mr. Burzio, would you please
12 call your next witness?

13 MR. BURZIO: Yes, Mr. Chairman. Time
14 Warner, et al., calls Joseph E. Schick.

15 CHAIRMAN OMAS: Mr. Schick, you may as well
16 stand, continue to stand. Would you raise your right
17 hand?

18 Whereupon,

19 JOSEPH E. SCHICK

20 having been duly sworn, was called as a
21 witness and was examined and testified as follows:

22 CHAIRMAN OMAS: Thank you. Please be
23 seated.

24 MR. BURZIO: Is your microphone on, Mr.
25 Schick?

1 THE WITNESS: It is.

2 DIRECT EXAMINATION

3 BY MR. BURZIO:

4 Q Would you state your name and occupation,
5 please?

6 A My name is Joe Schick, and my real job is
7 director of postal affairs at Quad Graphics.

8 Q Do you have with you at the witness stand a
9 document that has been marked for identification as TW
10 et al.-T-4 and captioned "Direct Testimony of Joseph
11 E. Schick"?

12 A I do.

13 Q Is that the testimony that you wish to give
14 in this proceeding?

15 A It is, yes.

16 Q Was it prepared by you?

17 A It was.

18 Q Are there any corrections or additions to
19 it?

20 A No.

21 Q If you were to testify orally today, would
22 your oral testimony be the same as contained in that
23 document?

24 A It would.

25 MR. BURZIO: Mr. Chairman, I move that TW et

1 al.-T-4 be received in evidence and transcribed in the
2 record.

3 CHAIRMAN OMAS: Is there any objection?

4 (No response.)

5 CHAIRMAN OMAS: Hearing none, I will direct
6 counsel to provide the reporter with two copies of the
7 corrected direct testimony of Joseph Schick. That
8 testimony is received into evidence.

9 (The document, previously
10 identified as Exhibit No. TW
11 et al.-T-4, was received in
12 evidence.)

13 //

14 //

15 //

16 //

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT TESTIMONY OF
JOSEPH E. SCHICK
ON BEHALF OF
TIME WARNER INC.,
CONDÉ NAST PUBLICATIONS, A DIVISION
OF ADVANCE MAGAZINE PUBLISHERS INC.,
NEWSWEEK, INC.,
THE READER'S DIGEST ASSOCIATION, INC.
AND
TV GUIDE MAGAZINE GROUP, INC.

April 26, 2004

TABLE OF CONTENTS

	<u>Page</u>
Purpose	1
Autobiographical Sketch	1
1. Current Printing and Mailing Industry Environment	2
2. Maximizing Worksharing At Quad In The Current Environment	4
3. Changing Landscape As A Result Of The New Rate Structure	9
Summary	13
Exhibit A	A-1

1 **Direct Testimony Of**

2 **Joseph E. Schick**

3

4 **PURPOSE**

5 My name is Joseph E. Schick. I submit this testimony in support of the proposal
6 advanced by Time Warner et al. The purpose of my testimony is to show how, in
7 the real world, this proposed rate structure would move mailers and the Postal
8 Service closer to a business and process model based on the principle of "lowest
9 combined costs." That model allows for each member of the process value chain to
10 do the work that is most efficient and economical for them, creating the "lowest
11 combined costs" from design to delivery – not just shifting the cost (and possibly
12 increasing the combined costs) from one part of the process to another.

13

14 **AUTOBIOGRAPHICAL SKETCH**

15 I am the Director of Postal Affairs at Quad/Graphics, Inc., headquartered in
16 Pewaukee, Wisconsin. Quad is the largest privately held printing and distribution
17 company in North America. On an annual basis we produce more than 8 billion
18 magazines, books, catalogs, direct mail pieces, and parcels that are then distributed
19 through the United States Postal Service. That volume equates to an annual
20 postage bill of more than \$2 billion for our clients.

21 *I have more than 20 years experience in the post press production process, which*
22 includes postal affairs and distribution, and have been employed in my present
23 position since 1990. I have participated as a witness in two previous rate case

1 proceedings.¹ I have served on numerous Mailers Technical Advisory Committee
2 and informal industry working groups, and was Chairman of MTAC from 1999-2000.
3

4 **1. CURRENT PRINTING AND MAILING INDUSTRY ENVIRONMENT**

5 Before I explain the need and importance of the proposed rate structure, I think it
6 *important to understand where we are today and, more importantly, why new and*
7 *expanded opportunities for process improvement have not been realized.*

8 When we enter into a contract to produce a product for our clients today, they are
9 looking for value for the cost. That value can be realized in a number of ways, such
10 as quality (really a given in today's environment), price (not always the lowest),
11 customer service, reduced cycle time, and availability of technology and innovation.

12 When the product is mail, the Postal Service obviously has a distinct impact on
13 some of the business decisions that are made. Postage rates dictate the way we
14 presort and package the mail, and speed of delivery dictates how we containerize,
15 transport, and distribute the mail. You would think that logical people would make
16 logical decisions, and in many cases that does happen. However, because of the
17 current rate structure, it doesn't happen enough. The result is win/lose/lose
18 situations for our customers, the Postal Service, and the mail service provider. We
19 are forced to make decisions that we know are not in the best interest of the "lowest
20 combined costs" model.

21 Sometimes the decisions are easy. If a customer is looking for the lowest postage
22 rates and nothing else, we will: create the best presort scenario (maximize carrier
23 route), automate/barcode as much of the non-carrier route mail as possible, and

¹ Docket No. R2000-1, Postcom et al.-T-2; Docket No. R97-1, AMMA-T-1.

1 then maximize the amount of dropship mail. In today's rate structure, those are
2 really the only three elements of worksharing that can impact postage rates.

3 Sometimes the decisions are a little more difficult. If the customer has a time-
4 sensitive product, they may be looking for the quickest delivery, be willing to pay
5 more for the transportation and distribution, and weigh that above all else. In that
6 case, we would still try to keep the postage rates down by maximizing presort and
7 automating the mail. But the way the mail is containerized, transported, and
8 distributed will probably be done in a much less efficient manner. For example, if we
9 were creating a mailing for a time-sensitive periodical, instead of building one ADC
10 pallet containing 100 packages (carrier route, 5 digit, etc.), we might create 50-75
11 individual 5 digit sacks with those same packages. The customer would choose this
12 preparation because in many cases, mail on ADC pallets would end up with slower
13 delivery because of the number of handlings needed to break down the pallet, sort
14 the packages, and move the mail to the next downstream postal facility. As opposed
15 to those same 5 digit or carrier route packages in a sack, whereas they would travel
16 directly to the DDU before being opened. In the end, the postage might be the same
17 if prepared either way, but the overall cost to everyone involved would be much
18 higher.

19 IN STYLE magazine provides a good example of changes in mail preparation that
20 can be done without negatively impacting the publisher, while having a positive
21 impact on the printer and Postal Service. IN STYLE reduced the number of sacks per
22 issue from 4,059 (October 2003) to 1,418 (April 2004), a reduction of 65%, merely
23 by altering the presort parameters. There was no added expense to Time Inc. to
24 make this change, but the elimination of 2,641 sacks significantly reduced USPS
25 costs. Those sacks would have been entered at origin at a cost of \$3/sack, while
26 the cost of mail on pallets entered at either the DSCF or DADC would be \$13/pallet

1 according to the data in witness Stralberg's testimony. The change from sacks to
2 pallets also created less cost and more efficient production for Quad.

3 And sometimes the decisions are very difficult. When the customer wants and
4 needs the lowest postage rates *and* the quickest, most efficient delivery, we must
5 maximize all of the worksharing opportunities available while expediting the
6 distribution process. In today's world, this *is* the scenario we are all presented with
7 by our customers each and every day. It *is* the scenario that is required because of
8 the competitive world we live in – the competition for information, advertising, and
9 speed to market.

10 Unfortunately, today the depth of worksharing discounts limits us. Opportunities are
11 restricted because the costs of increased investment in technologies, such as
12 comailing, copalletization, and investing in new technologies and processes
13 outweigh the return that we could get from the reduction in postage costs.

14 If the world of hard-copy, ink-on-paper distribution is going to continue to be a viable
15 medium, then the paradigm for the way postage rates are structured and the way
16 that worksharing is developed must change. The rate structure proposed by Time
17 Warner et al. would be the first step in creating the incentives needed to effect
18 changes that would help to lead to the viability of our industry now and in the future.

19

20

1 **2. MAXIMIZING WORKSHARING AT QUAD IN THE CURRENT ENVIRONMENT**

2 As mentioned in the last section, today there are three main elements of
3 worksharing: presort, automation, and dropship. In maximizing each of those
4 elements, we can look at mailings individually or as groups of mailings being
5 combined into one. Volume generally dictates how much can be done and to what
6 extent.

7 At Quad/Graphics, we realized early in our corporate life that “pooling” product was
8 the only way that we could compete with our much larger competitors. The “pooling”
9 of product simply means combining multiple print jobs into one larger grouping.
10 That can be done within a package, on a pallet, or in a truck. It began for us in
11 distribution with the creation of a newsstand pool in the early '70s and then carried
12 over to mail in the early '90s when dropship discounts became available.

13 In the mid-'80s, we used the same approach in developing our comailing (multi-mail)
14 operation. By combining a number of different periodicals into one presorted
15 mailing, we were able to improve presort for each title and at the same time create
16 more palletized mail. That process has proven to be one of the most important in
17 the growth of our business. It helped to differentiate us from our competition and
18 attract a number of publishers, with both large and small circulations.

19 A strange thing happens when developing technology and new processes. In
20 almost every case, the value is never really fully known until after implementation.
21 As we developed our comailing operation, our number one goal was to improve
22 presort for our customers and reduce their postage bills – making smaller circulation
23 periodicals look and feel the same as larger circulation periodicals. We soon
24 realized that there were many more benefits, such as: reduction in sacked mail

1 equating to savings associated with labor, material handling, and warehousing;
2 increased efficiencies on our binding lines because we move the addressing to the
3 offline comail process; product quality maintained through postal processing
4 because of fewer handlings; and package integrity maintained because package
5 handlings are reduced.

6 The Postal Service has also benefited from our move to comailing. At acceptance,
7 instead of verifying and accepting multiple mailings (in some comail pools we are
8 combining 35-40 different publications or versions of publications that would have
9 been separate, individual mailings), we present one mailing for verification and
10 acceptance. The documentation we provide to the Postal Service and our
11 customers is used to support the postage paid and discounts claimed by each
12 individual publication within the comailing. That same benefit is then carried over to
13 every step in postal processing (handlings associated with pallets, packages, and
14 pieces). In addition to the mail handlings that are reduced, the Postal Service also
15 sees benefits related to staging of pallets and the handling, transportation, and
16 inventory of MTE (Mail Transport Equipment – sacks and pallets).

17 As we continued to grow our comail operation, we also realized that we had to make
18 entry into the process as easy as possible for our customers, ensuring that they
19 would continue to stay in the program. The key to success has and will continue to
20 be volume. As a result, we have continued to upgrade the comailers with: levelling
21 tables to allow for variances in thickness; multiple choices for addressing, using
22 either inkjet and/or paper labels with the choice of permanent glue or releasable
23 glue; feeder pockets designed for perfect bound and saddle-stitched publications;
24 and video technology that can match each address to the appropriate magazine to
25 ensure that no subscriber will receive the wrong publication.

1 Today, we have more than 120 different publications participating in our comailing
2 program. The list size of those publications can vary from a main run of 500,000
3 copies to supplementals or back issues of 1,500 copies. Publications may also use
4 comailing for just a version or versions of their publication. We are comailing on a
5 weekly basis across five comailing lines in our Sussex, WI printing plant. In addition,
6 we have instituted what we are calling a co-wrap process in our Sussex plant for
7 polywrapped publications. It is designed in the same manner as our comail/multi-
8 mail program. In a short period of time, that program has attracted a number of
9 publications and has resulted in our need to purchase new wrapping equipment that
10 can accommodate more publications (more feed stations).

11 On average, we are comailing about 3-6 million pieces each week. The comail
12 result speaks for itself. The average percentage of carrier route presorted mail for
13 each publication is about 12-14% before comailing. After combining all of the lists
14 together and presorting as one comailing, the average carrier route presort
15 increases to about 75-85%, depending on the total number of copies. The comail
16 also results in mailings where 99%+ is palletized, and the only reason 100% is not
17 palletized is because of our segmenting process, which allows our customers to use
18 a number of versions within the comail and ensures maximum efficiency in our
19 production process. We will be upgrading our software in the near future to create
20 100% palletized comailings. In addition, we are able to dropship almost 90% of the
21 total copies in the comailing, despite the variance in advertising percentages of the
22 different publications. Of the total dropshipped, about 80% is at the DSCF level,
23 with the balance going to the DADC.

24 I have included as Exhibit A to this testimony the actual results from one comail pool
25 produced in our Sussex, WI facility. I chose a comailing that contained about 2.7
26 million copies. It should help to illustrate the positive movement of mail to finer

1 levels of presort, the reduction in the overall number of packages, the shift from
2 sacks to pallets, and the opportunities for increased dropshipping that result from
3 this process.

4 Quad is now also comailing Periodicals to varying degrees in some of our printing
5 plants outside of Wisconsin. These comailings are in the early stages of
6 development and lack the volumes to achieve the remarkable results that are
7 illustrated in Exhibit A. However, we know that any improvement is better than
8 none, and that you have to start somewhere. So if we're not able to achieve high
9 levels of carrier route, we at least are able to move basic rate mail to 3 digit, and 3
10 digit mail to the 5 digit level.

11 Harry Quadracci founded and built our company on the "Ready, Fire, Aim" theory.
12 That is why we started comailing in Sussex, and why we continue to expand that
13 process to other production plants. If you build it, they will come. A rate structure
14 with the proper incentives, such as what is proposed in the Complaint filing, would
15 facilitate each and every one of our print facilities to look for new and/or additional
16 opportunities in comailing, copalletization, and dropshipping, and then make the
17 necessary capital investments to initiate and develop the processes.

18 Comailing is not limited to Periodicals. We are also comailing Standard Mail in all of
19 our printing plants. The concept and results are the same, but the production
20 process is different. Where our Periodicals comailings take place offline (not on a
21 binding line), Standard Mail is almost always comailed inline while the catalogs are
22 being bound. There are three main reasons for that: 1) most catalogs still require
23 inside inkjetting on an order form, which is costly to do offline; 2) catalogs do not
24 usually require as many pockets (feed stations) on a binding line, which allows for
25 more than one to be bound at the same time; and 3) Periodicals generally require

1 more pockets (feed stations) on a binding line, eliminating the opportunity to add
2 one or more publications to the process. Just as with postal sorting equipment, our
3 binding lines don't know the difference between Standard Mail and Periodicals, so
4 the cost to do these processes for any class of mail is basically the same.

5 We are also comailing in our Direct Mail operations, combining unwrapped/non-
6 enveloped catalogs with Direct Mail in envelopes. Again, the concept and results
7 mirror what happens in the other comail processes.

8 As mentioned, comailing does create opportunities for dropshipping. In Standard
9 Mail and Bound Printed Matter, we always anticipate that on average we will be
10 dropshipping 95-98% of the mail. Our Parcel Direct subsidiary handles Parcel
11 Select, which is a product that is 100% dropshipped. However, when planning
12 distribution around Periodicals there is always a mystery about what percentage of
13 the mail will be cost-effective to dropship. The average percent of Periodicals that
14 we produce that will dropship is about 80-85%. Why? The reason is simply because
15 of the variability of weight, distance, and the advertising percentage. Weight and
16 distance are both variables in determining what will dropship in Standard and Bound
17 Printed Matter, but the advertising percentage is not a factor. In general, heavier
18 weight publications with low advertising will not be able to dropship based purely on
19 the postage savings versus cost of transportation. The unzoned editorial rate is a
20 major impediment to dropshipping, and it needs to be changed to reflect the realities
21 of logistics in today's world. However, I also realize that consideration and a
22 balance must still be maintained for ESCI value of periodicals. I firmly believe that
23 that balance is reflected in the proposed rate structure in the Complaint filing.

24

1 Note: When referring to dropshipping at Quad/Graphics, the average percentages of
2 mail entered at the destination postal facilities would be consistent across all of our
3 printing locations.

4

5 **3. CHANGING LANDSCAPE AS A RESULT OF THE NEW RATE STRUCTURE**

6 How would the rate structure proposed by Time Warner et al. in this proceeding in
7 impact mailers behavior? To answer that question, let's first look back at other
8 proposed changes to rates and discounts. Dropship discounts for Standard mail
9 were first introduced in 1991. There is a cost for transportation planning, staging,
10 routing, and trucks. The necessary incentives were created in the discount
11 structure, and mailers began to provide their own transportation and enter mail at
12 designated postal facilities. Automation discounts became available for flats in
13 1992. There is a cost to mailers to create mailing lists and mailpieces that will
14 qualify for automation discounts. When the necessary incentives were created in
15 the discount structure, mailers began to barcode flats.

16 Since 1992, in each subsequent rate case the differential between 5-digit automated
17 mail and carrier route mail has increased, resulting in more incentives to comail.
18 Quad and a few others in the industry had taken advantage of the savings potential
19 by comailing prior to that time, but the process had not caught on as a standard
20 practice in the industry. The price point had not gotten to where it was cost-effective
21 for mailers of all different sizes. In the last few years we have seen a number of
22 additional companies (large and small) make the move to some form of comailing as
23 the potential savings (discount structure that creates the differential between presort
24 categories) has continued to increase and the availability of comailing technology
25 has become more economically justifiable.

1 So in general, when provided with the proper incentives, the mailing industry will
2 react by changing mailing preparation to be able to capture the discounts offered.

3 I firmly believe that in a cost-based rate structure where there are natural incentives
4 to create finer sorts, fewer packages and containers (with greater incentives placed
5 on pallets), and more dropshipments, we will see more printers and other mailers
6 making investments in technology, software, and processes designed to create the
7 lowest cost mail while creating the most efficient production process. The net result
8 will be the "lowest combined costs" for the preparer of the mail and the Postal
9 Service.

10 In order to improve presort, more companies will begin to utilize comailing in some
11 form. One of the by-products of comailing is a reduction in the total number of
12 packages. It also results in more mail moving to pallets instead of sacks, and then
13 provides an opportunity to dropship the mail where there was none when the
14 mailings were prepared individually. In other words, comailing equals copalletization
15 without the extra work.

16 Many in the industry worry that small or mid-size printers and publishers will be hurt
17 by a cost-based approach to rates. That may be true for some who are in unique
18 situations and are unable to change anything in their mail preparation or mailpiece
19 design without negatively impacting their business model. However, I think that in
20 most cases such expectations sell our industry short. Printers and publishers,
21 provided with the necessary incentives, will utilize equipment already available to
22 them and be creative enough to build processes that will allow them to take
23 advantage of a new rate structure while enhancing their business model. They will
24 also develop comailing to fit their needs, and may in fact redefine what we call
25 comailing.

1 I also believe that if there is an opportunity to make money by consolidating
2 periodicals, American ingenuity will prevail and a new business will be created. It
3 happened years ago when presort bureaus were born, and it happened again about
4 6 years ago when Parcel Select was created and parcel consolidators (including our
5 Quad/Graphics subsidiary Parcel Direct) were born.

6 Quad/Graphics does not have a corner on the market for ways to create efficient
7 mail while maintaining "lowest combined costs." In fact, the comailing process also
8 challenges us. We have been maximizing the opportunities to reduce postage costs
9 by comailing, but now must also reduce the time of production to help our clients
10 improve the speed to market, or as we refer to it "reduce cycle time."

11 Additionally, the proposed rate structure includes a change to zone the full weight of
12 the publication. That would provide the extra incentive for a number of publications
13 with low advertising content to be able to dropship (or zone skip). As previously
14 mentioned, the advertising percentage of a publication usually dictates today
15 whether or not dropshipping makes economic sense, whether the savings offset the
16 cost of transportation that must now be provided by the mailer instead of the Postal
17 Service. In most cases today, publications with low advertising will not see enough
18 savings to justify the cost.

19 The math is very simple. Today the discount only applies to the advertising pounds
20 of the publication. However, freight is being paid on the full weight of the
21 publication. That would be like shipping oranges and paying freight on the entire
22 weight, but only being able to discount the weight of the juice. From a pure
23 transportation standpoint, it doesn't make sense. The discounts, like the freight
24 rate, should apply to the entire product (in this case publication) that is on the truck.

1 So zoning the full weight of the publication is the correct approach if the goal is to
2 incent more dropshipping. It will help move more Periodicals from postal-supplied
3 transportation to private transportation. If that does not happen, I think we will
4 continue to see Periodicals costs rise. Why? Because today the majority of
5 Standard Mail, Bound Printed Matter, and Package Services (Parcel Select being
6 100% dropship) are already utilizing dropshipment, while Periodicals are lagging far
7 behind. At some point, if that doesn't change, Periodicals will find themselves
8 sharing postal transportation with no one else and having almost all of the cost of
9 that transportation attributed to them. The result would be higher rates.

10

11

SUMMARY

12 Without the proper rate signals, costs will continue to rise, which will make printed
13 products less competitive. Neither our industry nor the Postal Service can allow that
14 to happen. Cost-based rates are one significant tool in helping to keep printing and
15 mailing competitive.

16 I do believe that a change is needed in the rate structure, and it must be substantial.
17 The days of trying to incent behavior by adding pennies to a disjointed discount
18 structure, when dollars are needed for capital investments to realize the benefits,
19 are gone. In order for the mailing industry to make the capital investments needed to
20 substantially change the way Periodicals are produced and distributed, we need a
21 clear signal from the Postal Service through a new rate structure, – a rate structure
22 that is more aligned with real world pricing that we all use in our businesses, where
23 you pay for what you use. That rate structure is reflected in the proposal included
24 with the Time Warner et al. complaint filing.

1 The printing and mailing industry will invest in the technology and software needed
2 to produce more cost-efficient mail. Technology is readily available today from a
3 number of different companies, including the suppliers of polywrap equipment. Our
4 own subsidiary, Quad/Tech International, has sold comailers to other printers and
5 distribution companies in the past. Routing and sorting software systems are
6 commercially available from major software suppliers. The use of the Mail.Dat file
7 format for moving and sharing postal information between list services, printers,
8 distribution companies, and the Postal Service has been commonplace for years,
9 and is readily accepted as the industry standard. So the reality of the situation is that
10 we are in a plug-and-play environment, and all that is needed to move the industry
11 forward are the proper rate incentives.

12 A cost-based Periodicals rate structure will provide the incentive for Quad/Graphics
13 to continue to build on what we do best, and to make new investments in
14 technology, processes, and systems that will help us to do things in the production
15 and distribution of mail that we aren't even thinking about yet. That is the beauty of
16 creating the incentives that will create the opportunities that will facilitate the goal of
17 "lowest combined costs".

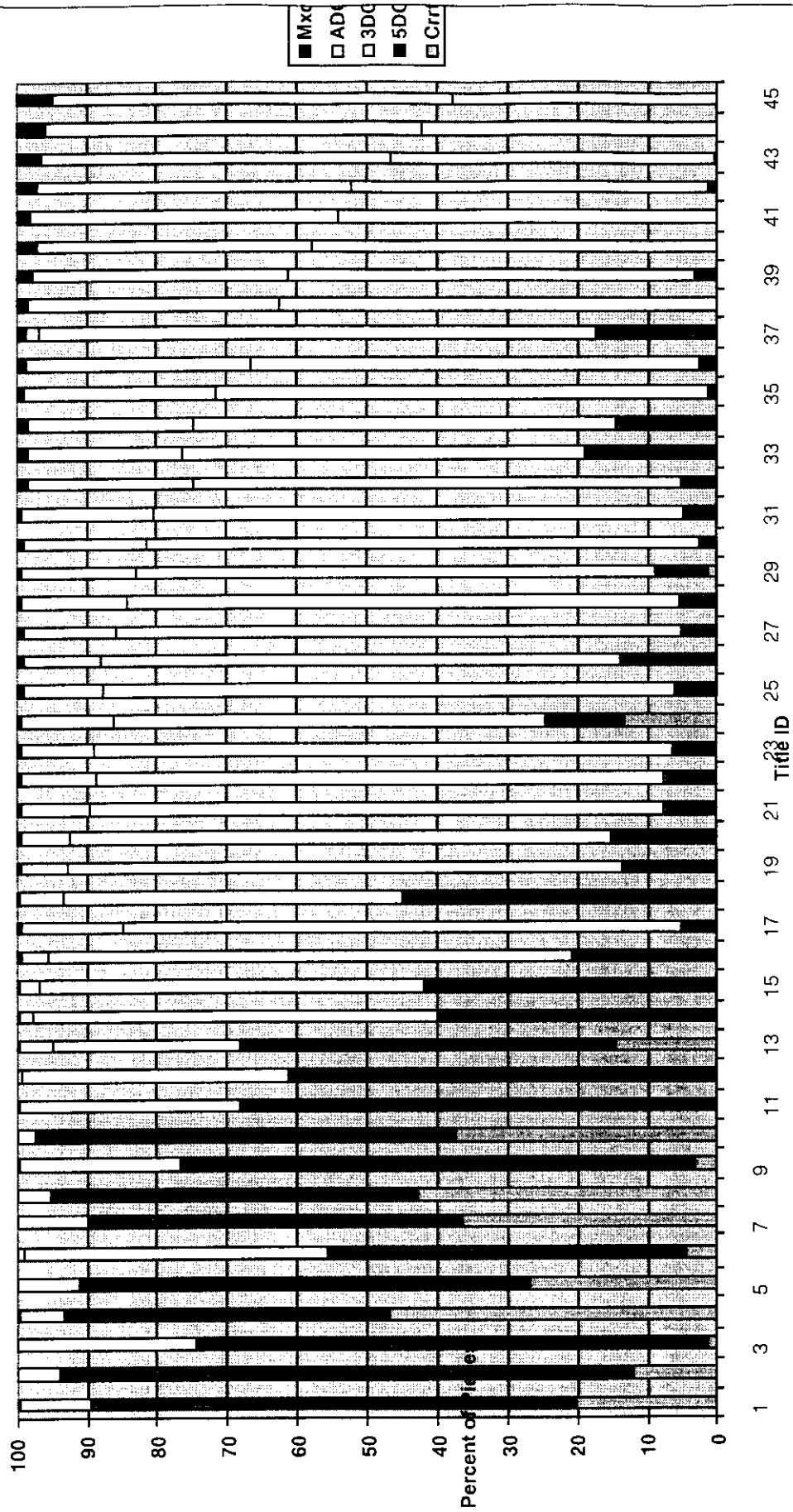
18

EXHIBIT A

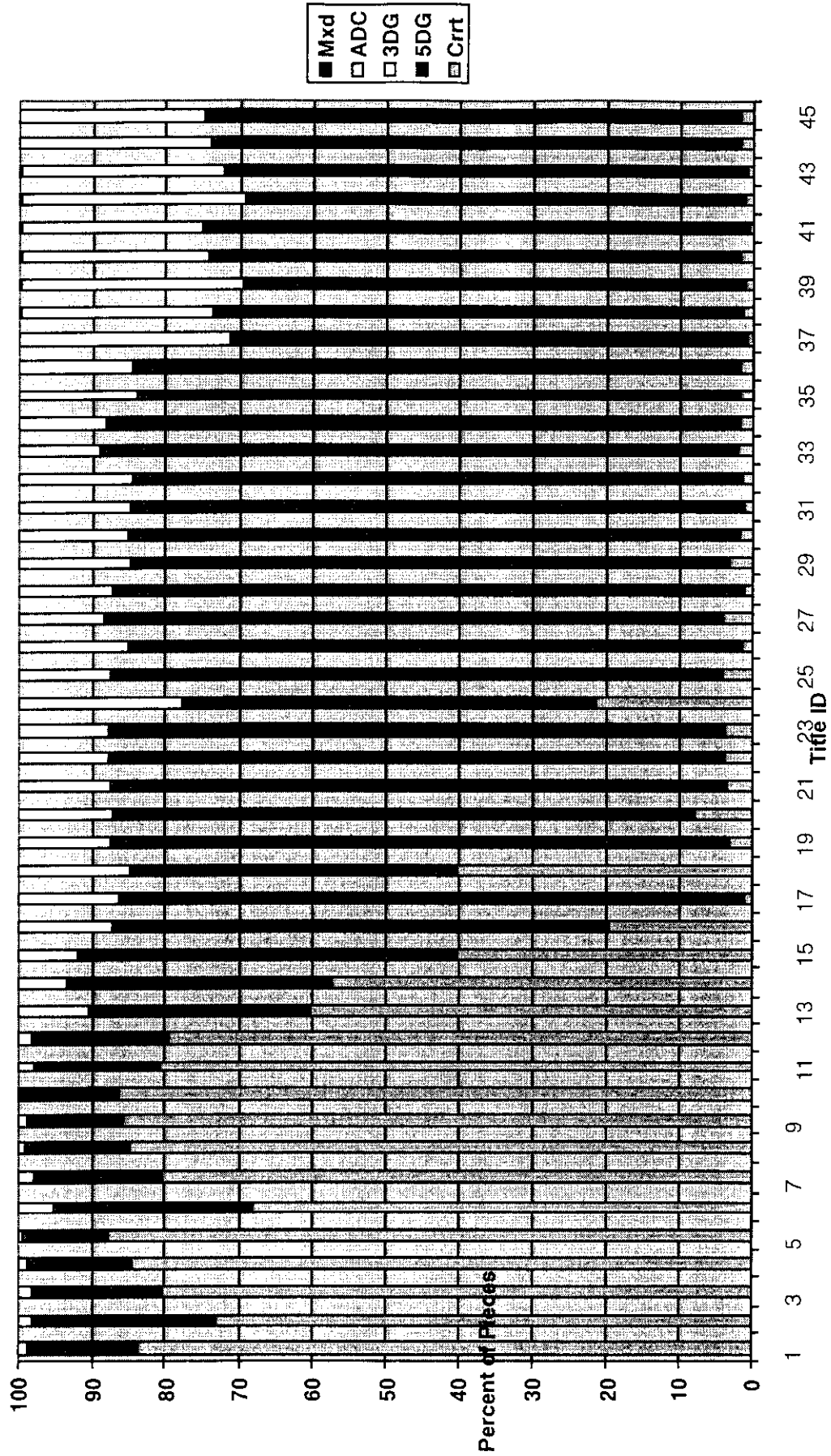
Summary Of Containers With Singular And Combined Sorts					
		Singular Sorts		Combined Sort	
		Containers Created	Pieces on Containers	Containers Created	Pieces on Containers
Pallet Types	5DG CRRS	13	6,562	167	154,287
	5DG	35	37,526	233	242,528
	SCF	1,036	1,461,575	978	2,194,411
	ADC	689	834,112	157	185,481
Total Pallets		1,773	2,339,775	1,535	2,776,707
Total Sacks		10,282	449,775	283	12,843

Summary of Titles Used in Co-mail Analysis (First 13 of 45 Titles)							
Title ID	Production Run Type	Postal Class	Rate Type	Processing Category	Mailed Pieces	Piece Weight by Version	Ad% by Version
1	Main Run	Periodical	Regular	Flat	571,558	0.7310	41.39
						0.7009	40.73
						0.7009	41.39
						0.3494	34.00
2	Main Run	Periodical	Regular	Flat	511,771	0.6560	46.53
3	Main Run	Periodical	Regular	Flat	288,024	0.5319	49.85
						0.4601	39.70
						0.4033	47.91
4	Main Run	Periodical	Non-Profit	Flat	266,824	1.2863	52.00
						1.2765	52.00
						1.2589	52.00
						1.2492	52.00
						1.2394	52.00
						0.6177	33.52
5	Main Run	Periodical	Non-Profit	Flat	185,140	0.2660	43.00
6	Main Run	Periodical	Regular	Flat	164,576	1.2472	52.00
						0.4073	47.91
						0.3671	34.00
						0.3641	43.78
						0.3604	43.78
7	Main Run	Periodical	Regular	Flat	113,926	1.2198	52.00
8	Supplemental	Periodical	Regular	Flat	103,613	1.2316	52.00
9	Main Run	Periodical	Regular	Flat	92,495	0.5887	35.00
10	Supplemental	Periodical	Regular	Flat	77,757	1.2668	52.00
11	Main Run	Periodical	Regular	Flat	72,045	0.4422	38.05
12	Main Run	Periodical	Regular	Flat	52,453	0.6433	52.43
13	Supplemental	Periodical	Regular	Flat	38,073	1.2687	52.00
						0.7323	42.03
						0.6890	56.25
						0.6650	59.14
						0.6550	58.24
						0.6192	35.00

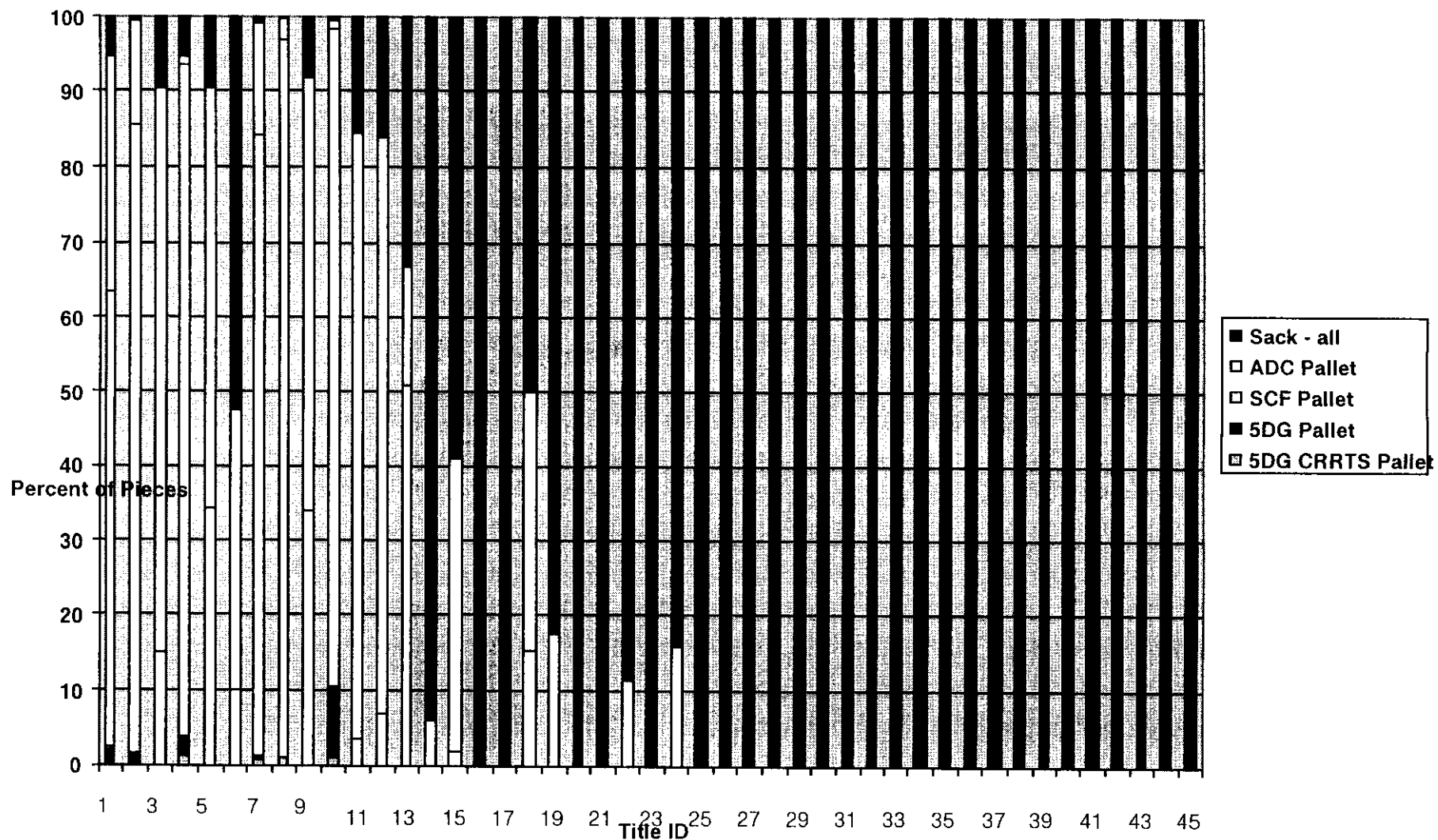
Percent of Pieces by Title by Presort Package
Singular Presort



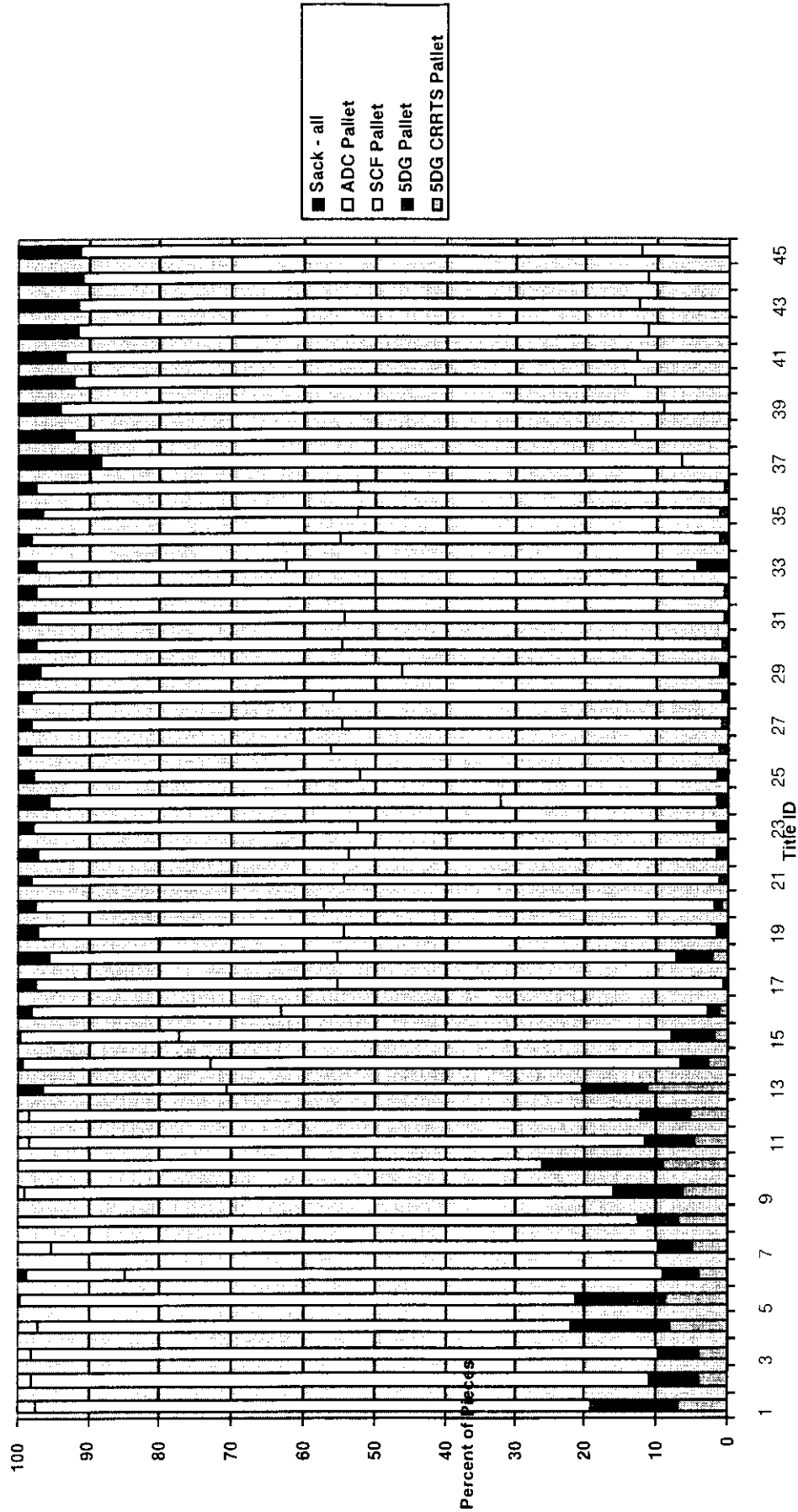
Percent of Pieces by Title by Presort Package
Combined Presort



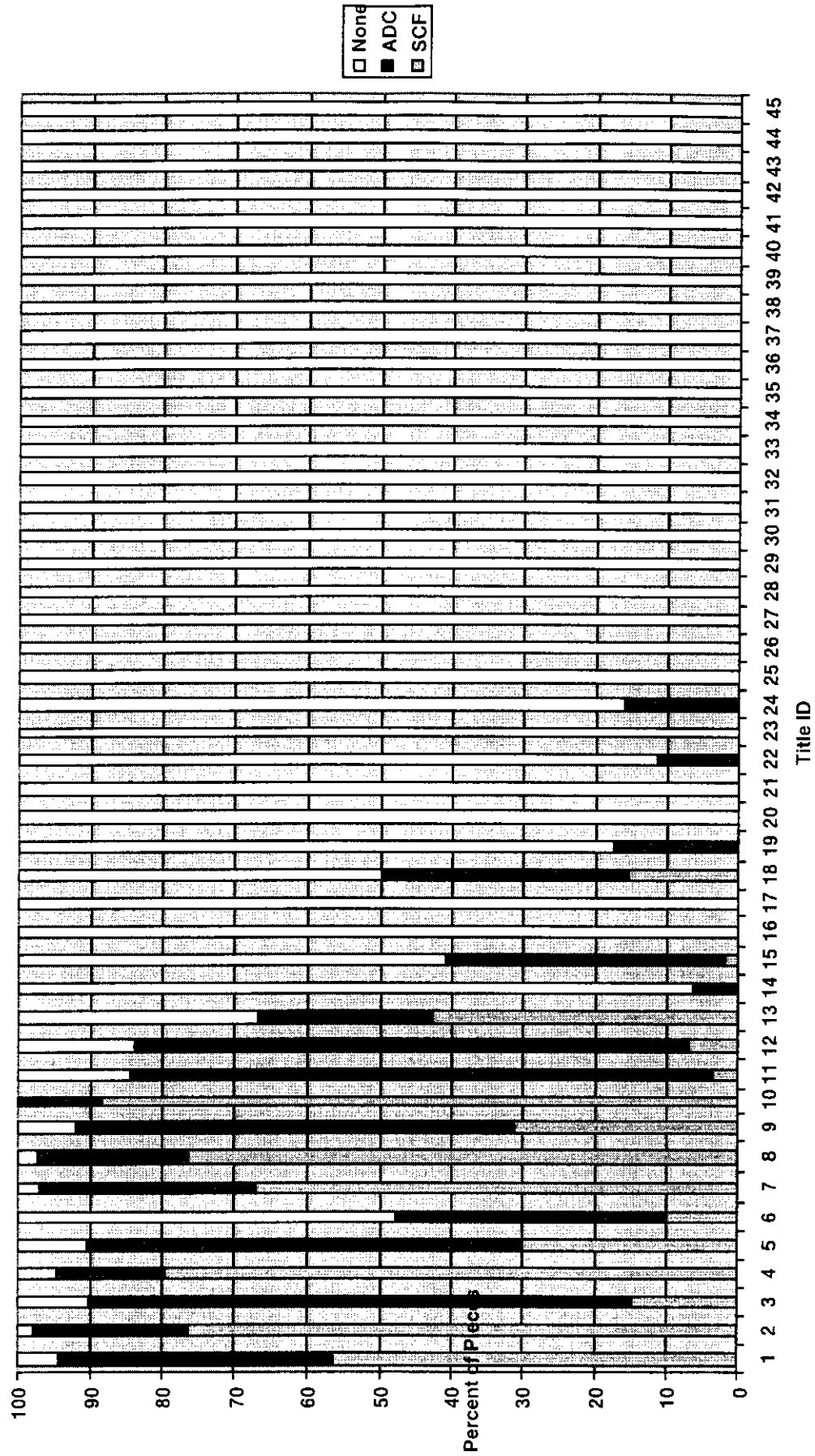
Singular Presort Containerzation



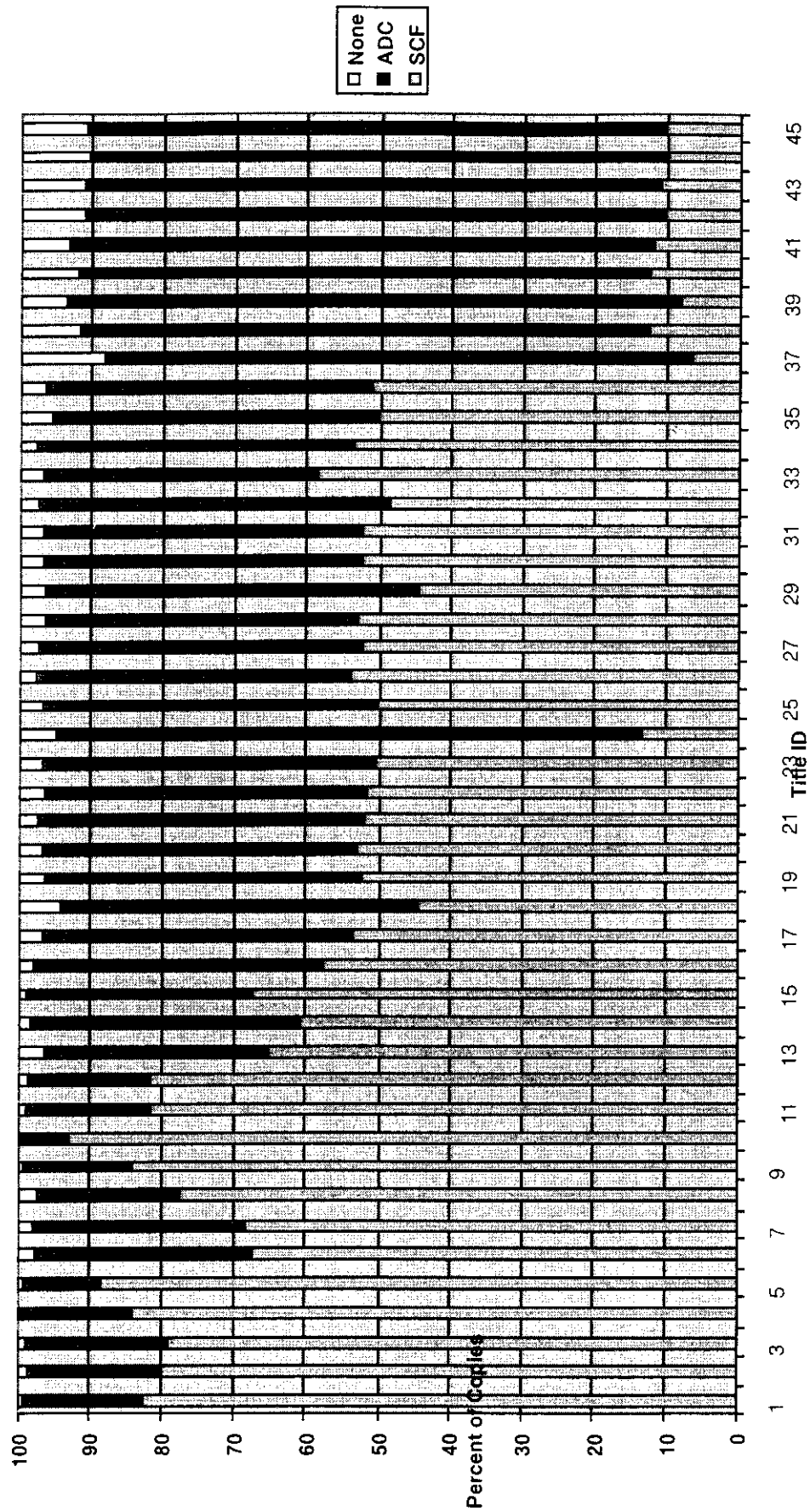
Combined Presort Containerization



Singular Presort Entry Point Discount



Combined Presort Entry Point Discount



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with § 12 of the rules of practice.

s/_____
Timothy L. Keegan

April 26, 2004
Washington, D.C.

1 CHAIRMAN OMAS: Mr. Schick, have you had an
2 opportunity to examine the packet of designated
3 written cross-examination that was made available to
4 you in the hearing room this morning?

5 THE WITNESS: I have, Mr. Chairman.

6 CHAIRMAN OMAS: If the questions contained
7 in that packet were posed to you orally today, would
8 your answers be the same as those you previously
9 provided in writing?

10 THE WITNESS: They would.

11 CHAIRMAN OMAS: Are there any corrections
12 you would like to make to those answers?

13 THE WITNESS: There are none.

14 CHAIRMAN OMAS: Counsel, would you please
15 provide two copies of the corrected direct written
16 testimony of Witness Schick, to the reporter? That
17 material is received into evidence and is to be
18 transcribed into the record.

19 (The document, previously
20 identified as Exhibit No. TW
21 et al.-T-4, was received in
22 evidence.)

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Complaint of Time Warner Inc. et al.
Concerning Periodicals Rates

Docket No. C2004-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF TW, CONDE NAST, NEWSWEEK, RDA, AND TV
GUIDE
WITNESS JOSEPH E. SCHICK
(TW ET AL.-T-4)

Party

Interrogatories

American Business Media

ABM/TW et al.-T4-1-3, 5-38, 40-54, 56-59, 61-69
USPS/TW et al.-T4-1, 3-6, 9


American Postal Workers Union,
AFL-CIO

ABM/TW et al.-T4-6, 13-16, 19-20, 22, 29-34, 38-
40, 43-44, 47, 49, 57-58, 61-64, 66

United States Postal Service

ABM/TW et al.-T4-1, 7-12, 17-18, 24, 29, 42, 45,
48, 50-56, 59, 65, 67-69
USPS/TW et al.-T4-1, 3-9

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
TW, CONDE NAST, NEWSWEEK, RDA, AND TV GUIDE
WITNESS JOSEPH E. SCHICK (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

ABM/TW et al.-T4-1
ABM/TW et al.-T4-2
ABM/TW et al.-T4-3
ABM/TW et al.-T4-5
ABM/TW et al.-T4-6
ABM/TW et al.-T4-7
ABM/TW et al.-T4-8
ABM/TW et al.-T4-9
ABM/TW et al.-T4-10
ABM/TW et al.-T4-11
ABM/TW et al.-T4-12
ABM/TW et al.-T4-13
ABM/TW et al.-T4-14
ABM/TW et al.-T4-15
ABM/TW et al.-T4-16
ABM/TW et al.-T4-17
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ABM/TW et al.-T4-25
ABM/TW et al.-T4-26
ABM/TW et al.-T4-27
ABM/TW et al.-T4-28
ABM/TW et al.-T4-29
ABM/TW et al.-T4-30
ABM/TW et al.-T4-31
ABM/TW et al.-T4-32
ABM/TW et al.-T4-33
ABM/TW et al.-T4-34

Designating Parties

ABM, USPS
ABM
ABM
ABM
ABM, APWU
ABM, USPS
ABM, USPS
ABM, USPS
ABM, USPS
ABM, USPS
ABM, USPS
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ABM, APWU
ABM, APWU

ABM/TW et al.-T4-35	ABM
ABM/TW et al.-T4-36	ABM
ABM/TW et al.-T4-37	ABM
ABM/TW et al.-T4-38	ABM, APWU
ABM/TW et al.-T4-39	APWU
ABM/TW et al.-T4-40	ABM, APWU
ABM/TW et al.-T4-41	ABM
ABM/TW et al.-T4-42	ABM, USPS
ABM/TW et al.-T4-43	ABM, APWU
ABM/TW et al.-T4-44	ABM, APWU
ABM/TW et al.-T4-45	ABM, USPS
ABM/TW et al.-T4-46	ABM
ABM/TW et al.-T4-47	ABM, APWU
ABM/TW et al.-T4-48	ABM, USPS
ABM/TW et al.-T4-49	ABM, APWU
ABM/TW et al.-T4-50	ABM, USPS
ABM/TW et al.-T4-51	ABM, USPS
ABM/TW et al.-T4-52	ABM, USPS
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ABM/TW et al.-T4-54	ABM, USPS
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ABM/TW et al.-T4-56	ABM, USPS
ABM/TW et al.-T4-57	ABM, APWU
ABM/TW et al.-T4-58	ABM, APWU
ABM/TW et al.-T4-59	ABM, USPS
ABM/TW et al.-T4-61	ABM, APWU
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ABM/TW et al.-T4-65	ABM, USPS
ABM/TW et al.-T4-66	ABM, APWU
ABM/TW et al.-T4-67	ABM, USPS
ABM/TW et al.-T4-68	ABM, USPS
ABM/TW et al.-T4-69	ABM, USPS
USPS/TW et al.-T4-1	ABM, USPS
USPS/TW et al.-T4-3	ABM, USPS
USPS/TW et al.-T4-4	ABM, USPS
USPS/TW et al.-T4-5	ABM, USPS
USPS/TW et al.-T4-6	ABM, USPS

USPS/TW et al.-T4-7

USPS/TW et al.-T4-8

USPS/TW et al.-T4-9

USPS

USPS

ABM, USPS

Response of Witness Schick to ABM/TW et al.-T4-1

ABM/TW et al.-T4-1. Please state when you first agreed to support the proposal contained in the complaint that initiated this proceeding.

Response

I can't be certain of the date, but it was some time in the last quarter of 2003.

Response of Witness Schick to ABM/TW et al.-T4-2

ABM/TW et al.-T4-2. (a) When you agreed to support the proposal in the complaint that initiated this proceeding, had you seen the rates proposed by witness Mitchell?
(b) If not, did those rates cause you to reconsider?

Response

a) No.

b) No.

Response of Witness Schick to ABM/TW et al.-T4-3

ABM/TW et al.-T4-3. Do you believe that the rates proposed by Witness Mitchell, if implemented with less than two years' notice, would seriously harm a significant segment of the Periodicals industry?

Response

No.

Response of Witness Schick to ABM/TW et al.-T4-5

ABM/TW et al.-T4-5. When Quad/Graphics creates sacks, as described at page 3, lines 8-11, do you do so inefficiently?

Response

It is my belief that everything Quad/Graphics does is done efficiently, including preparation of sacks.

Response of Witness Schick to ABM/TW et al.-T4-6

ABM/TW et al.-T4-6. You testify at page 3, lines 11-18, that "in many cases" mail in 5-digit sacks will be delivered more quickly than mail on an ADC pallet. Is it also true that, in many cases, mail in 5-digit sacks will be delivered more quickly than mail in 3-digit sacks?

Response

To my knowledge, there have not been any studies that show a difference in delivery times for mail in 5 digit sacks versus mail in 3 digit sacks. I would think that if the sacks were both entered at the same postal facility and each contained the same type bundles (5 digit and/or carrier route), there would not be any measurable difference in delivery time. To that end, in the next 60 days the USPS will initiate a very simple service test, using Confirm, on the impact of moving from 6-24 piece sacks, and which will include looking at the effect of moving the mail from 5 digit to 3 digit sacks. This study is in response to discussion at the IDEAlliance Conference in April about cost-based rates, and the fact that no one can make an educated decision on the impact of cost-based rates and the USPS Flats Strategy without knowing how it might affect delivery. The reality is that there is nothing to base the decision on without knowing what's happening today, and nobody seems to have definitive data.

Response of Witness Schick to ABM/TW et al.-T4-7

ABM/TW et al.-T4-7. When the Postal Service receives an ADC pallet with 5digit bundles, how does it process those bundles? Include in your answer (at least) (a) at what type of facility the pallet is opened, (b) how the bundles are sorted mechanically, (c) to what level(s) they are sorted, (d) into what type(s) of containers the bundles are placed after sorting and for shipment, (e) how they are shipped to the next facility, and (f) the type of facility to which they are shipped.

Response

If the mail was dropshipped at an ADC:

- a) ADC pallets would be processed at an ADC.
- b) Bundles are usually sorted on the SPBS (Small Parcel and Bundle Sorter).
- c) 5 digit bundles would be sorted to the 5 digit level.
- d) Bundles usually are sorted into some type of rolling stock/cart.
- e) The rolling stock is loaded on a USPS trailer, unless the ADC is also an SCF (Sectional Center Facility). If the ADC is also an SCF, the bundles would be moved to the appropriate flat sorter within the facility.
- f) The USPS trailer would move to the appropriate SCFs.

Response of Witness Schick to ABM/TW et al.-T4-8

ABM/TW et al.-T4-8. Does Quad/Graphics print any weekly Periodicals on Friday night/Saturday that the publisher seeks to have delivered to the reader on Monday? If so, how and when are those publications typically containerized, transported and entered into the mail when the destination is the west coast?

Response

We do print weekly Periodicals on weekends that require certain percentages of delivery on Mondays. Depending on the print location and total copy count, the mail will either be transported by truck or air. We try to utilize over-the-road truck transportation as much as possible by using team drivers and combining the weeklies with our other dropship mail. The majority of the mail is prepared on pallets. Where there is not enough volume to palletize, we are containerizing the sacks in cardboard sleeves on pallets. The mail is then entered at the appropriate SCF.

Response of Witness Schick to ABM/TW et al.-T4-9

ABM/TW et al.-T4-9. Do you agree that the Postal Service's processing and transportation system is, over time, becoming increasingly geared toward handling pallets and away from handling sacks?

Response

Yes, just as it once became increasingly geared toward transporting mail by truck and airplane and away from transporting it by railroad and steamship.

Response of Witness Schick to ABM/TW et al.-T4-10

ABM/TW et al.-T4-10. Have you ever worked on developing a container that has a capacity lower than that of a pallet but that would be less costly for the Postal Service to handle than a sack? If so, please provide the details of that work, including its results.

Response

I chaired two different MTAC work groups that were focused on alternate preparation for flats and developing a new flats container. They were Alternate Flats Preparation and Flats Container Development. The final reports and resolutions of these work groups are attached.

MTAC Issues Tracking System (MITS)

Issue Title	Preparing Flats Using Alternate Packaging		
Issue Originator	Val Scansaroli		
Originator Association	Agricultural Circulation Association		
USPS Sponsor	Bob Williamson		
Steering Committee Sponsor	Jack Widener		
Issue Statement	Escalating flat mail postage rates compel industry and the Postal Service to focus more intently on improving flat sorting efficiencies for cost reduction. The elimination (or modification) of packaging has been identified as a key element of this endeavor. Rather than developing isolated aspects of the process, the work group will be tasked with designing a delivery system for flats from binding line, through induction point of USPS flat sorting devices.		
Impact on Other Issues or Procedures	Adaptations to make-up rules in the DMM are anticipated. Transportation systems could be affected.		
Desired Results	Faster and more efficient mail processing of flat mail, translating to measurable net "system" cost reductions		
Industry Work Group Leaders	Joseph Schick	Association Gravure Assn of America Inc.	Phone Number 414 566-4134
USPS Work Group Leaders	Timothy Haney	Association United States Postal Service	Phone Number 202-636-1334
Latest Work Group News	Please review and offer comments for this proposed workgroup.		

Resolution After 4 months of testing alternative methods of preparing flats (different than the current packaged flats preparation), the work group did come up with some solid recommendations. The recommended actions are: 1) Create 5-digit auto schemes for flat mail. 2) Develop a new method of preparing flats using a new "container", different than the shrink-wrapped and strapped packaging currently being used. 3) Develop a container that replaces a number of currently prepared packages to reduce the number of handlings for the Postal Service and mailers. (A new work group is being created to accomplish this task, and work has already been initiated.) 4) Develop a presort to fit the new container, ensuring the container is always full...following the same principle of letters. This would mean an increase to the minimums required for presort. The Postal Service is also in the process of publishing a more detailed report of the actual test that was conducted by the work group. It will be added to this issue upon completion.

Issue Title	Flats Container Development		
Issue Originator	Joseph Schick		
Originator Association	Gravure Assn of America Inc.		
USPS Sponsor	Sammy Seals		
Steering Committee Sponsor	Robert Lindsay		
Issue Statement	As a result of the testing done by the Alternate Flats Preparation Work Group, a recommendation was made to develop a new methodology and container for the preparation of flat-size mail.		
Impact on Other Issues or Procedures	This will provide an opportunity to: move towards higher required minimums for presort; bypass SPBS operations for a larger portion of the mail; reduce problems associated with package integrity; improve productivity on flat sorters; and reduce costs associated with "prepping mail for flat sorters".		
Desired Results	To develop a new "container" for the preparation of flats that will facilitate a reduction in cost for the Postal Service at induction on the flat sorters, while helping to reduce mailers' production/preparation costs and facilitating automation for all. (Lowest Combined Costs)		
Industry Work Group Leaders	Joseph Schick	Association	Gravure Assn of America Inc.
		Phone Number	414 566-4134
USPS Work Group Leaders	John Brown		

Attachment B to Response of Witness Schick to ABM/TW et al.-T4-10
Page 1 of 4

Final Report

Flats Container Development Work Group (#71)

November 5, 2003

Work Group Leaders: **John Brown, USPS**
 Joe Schick, Quad/Graphics, Inc.

The Flats Container Development Work Group was created as an offshoot of the Alternative Flats Preparation Work Group. Developing a new flats container/package alternative was one of the recommendations that were brought forward by that work group.

The stated purpose of the Flats Container Development Work Group was: ***To develop a new "container" for the preparation of flats that will streamline the process of mailers' preparing flats in a way that allows the mailings to move from the mailer's facility directly to the flat sorter, bypassing and reducing the prep work associated with today's packaging requirements.*** Such a container would facilitate lower costs for the Postal Service from reduced handlings (minimizing bundle sortation and manual preparation activities), decrease mailers' production/preparation costs and facilitate automation for all resulting in "Lowest Combined Costs." This includes trying to also help facilitate the movement of mail from sacks to some other container, and then onto pallets for mailers that may not have sufficient flats volumes or the need to completely change how they prepare flats.

There were a number of considerations that the group recognized in changing the way flats are prepared and containerized. They included, but were not limited to:

- Will it require changes to minimum package size?
- Can it be applied to all presort categories, and not just automated?
- Can the mail be compensated within the container/package?
- Could 3-digit containers become the norm, or would it create capacity issues?
- If 3-digit containers were the norm, would it facilitate larger minimum package size requirements and mitigate a postage hit?
- Will the cost to retool printers' operations be offset with deeper discounts based on potential USPS savings?
- What is the impact on dropshipping efficiency and cost?
- What is the impact on postal operations...hardware and floor space?
- Can this be applied to both the AFSM100 and FSM1000?
- If a new type of container is created, who will supply?

A number of concepts were discussed and tested in the last year by the work group. The concepts tested were:

- Blue Plastic Trays (USPS)
- Black Plastic Trays (USPS)
- Disposable (One-Time Use) Cardboard Trays (Lockheed Martin)
- Plastic Tubs (Muller Martini)
- Increased Package Size – Current Environment (Muller Martini)

Attachment B to Response of Witness Schick to ABM/TW et al.-T4-10
Page 2 of 4

- Newsstand-Type Package Preparation (R.R. Donnelley)
- Ergo Cart (USPS)
- "Logs of Flats" (Printers)
- Flats Feed Assist Device (USPS)
- Formed Plastic Tray (Rehrig Pacific)
- Flat Tubs Replacing Sacks (Christian Science Monitor)
- Extended Package/Tray – Compensated (Siemens)

Participating mailers were given prototype test trays and guidelines for preparing the mailings for transport to the postal test site. Once the pallets arrived at the test site, they were brought into the facility in close proximity to the flat sorting machine, and the pallets were maneuvered by a pallet transpositioner onto a pallet table.

Upon the receipt of the pallets, USPS Engineering evaluated the condition of the mailing prior to induction on the AFSM 100 machine, and reports were prepared. These reports summarized the condition of the pallet load and containers of flat mail as it arrived, and were given individually to the participants that provided the test mailings. The test phase proved that package integrity is inherently a key factor since it enhances automated processing with full, non-compensated containers of flats performing the best.

The Postal Service decided that at this time, only non-carrier route mail would be applicable for consideration in any new container. Carrier route mail bypasses the flat sorters, and therefore, would continue to be prepared in packages as is done today with varying types of packaging material.

Because that premise was maintained throughout our test process, it became apparent that mailers would not have enough mail to certain zip codes to create larger packages or flat trays/tubs. That proved to be the case even when changes were made to current presort parameters, including the opportunity to combine auto and nonauto mail in the same package, and with the implementation of the 5-digit scheme (L007) for AFSM100 flats. We found that for the test site the size of the average package only increased by a few pieces, or the additional copies being grouped together pushed the mail to the next higher presort category.

Conclusion:

Operationally, the concept of a new flats container proved to be a viable alternative for the preparation of flats reducing the prep work associated with today's packaging requirements. However, regardless of the concept tested, the results were basically the same. Because of constraints caused by current presort parameters; we could not greatly reduce the current number of packages being created in a mailing by trying to build larger packages or a new type of tray.

In addition, the idea of creating two separate mail-packaging processes, one for carrier route presort as currently done and the other utilizing a new flats container, within one mailing and on one production line, was not embraced by printers and

Attachment B to Response of Witness Schick to ABM/TW et al.-T4-10
Page 3 of 4

other mailers represented in the work group. This did not follow the thinking of "lowest combined costs" for both the mailers and the Postal Service.

The crux of the issue the Container Group faced is the dichotomy of the input stream to the USPS.

The majority of flats coming off of the mailers' bindery lines are prepared for manual delivery such as newsstands, newspapers, and USPS Carrier Route bundles. This method of preparation, small shrink wrap bundles weighing less than 20 pounds, is incompatible with automated processes that desire large containers in excess of 60 to 80 lbs, which exceed recommended manual lifting capacity. The current printers/publishers operations are highly automated and efficient in the preparation of flats. The wholesale changes required on the printers/publishers end, to make up logs, trays, etc. could compromise the cost effectiveness of the current operation.

Correspondingly, the USPS cannot afford to potentially lose revenues through the implementation of a process or rate structure change that improves its automation processing, at the expense of its Carrier Route mail.

However, if the flats distribution process changes from manual to automation through the introduction of technology, the business case for both the USPS and the printers/publishers may change to allow the Flat Mail Preparation process to become more automation friendly.

As a result, we feel that any further testing at this time would not be warranted. However, if the Postal Service were to go forward with either the Flats Sequencing System (FSS) or Delivery Point Packaging (DPP) at some point in the future, there may be an application for one or more of the concepts that were tested.

Recommendations:

The ideas and concepts developed and tested by this work group can facilitate lowest combined costs for the USPS and the mailing industry. There is additional work to be done by both sides before automated flats processing can be fully realized.

1. The mailing industry needs to continue to work toward building larger packages.
2. The USPS needs to explore changes in presort and preparation requirements that would make the flats container an attractive alternative to preparing flats.
3. MTAC should consider reactivating this workgroup at a later date when a decision has been made for either DPP or FSS.

The ideas and concepts that have been proposed in the work group in the last few months, but have not been acted upon, will be transitioned to the appropriate MTAC work group, which will probably be the Flat Mail Preparation Optimization Work

Attachment B to Response of Witness Schick to ABM/TW et al.-T4-10
Page 4 of 4

Group. These ideas relate more to changes in presort and preparation requirements than to container development issues. They are:

1. Sequencing various presort categories on a pallet so that carrier route is separated from all other categories, allowing the Postal Service to be able to sort to an operation and move the packages more efficiently within a processing facility.
2. Building on the Christian Science Monitor test, which allows the use of flat tubs for entry into specific postal facilities instead of sacks.
3. Determining methods for increasing the maximum number of pieces/weight in a presorted package of flats. (Such as 3-digit scheme, this is already under consideration by the USPS.)

The decision has been made to sunset the work group.

Response of Witness Schick to ABM/TW et al.-T4-11

ABM/TW et al.-T4-11. (a) Please explain the details of the change in presort parameters for IN STYLE discussed at page 3, lines 21-23. (b) Were there any increased costs to Quad/Graphics from making this change? c) Were there any decreased costs to Quad/Graphics from making this change? (d) How many bundles and pieces were in sacks before the change? (e) How many bundles and pieces were in sacks after the change?

Response

- a) The following presort changes were made: Sack minimums were set to 24 pieces; the MADC sack minimum was set to 1; the ADC minimum pallet weight was set to 250 lbs; all other pallet minimums were set to 500 lbs; and three digits pallets were not allowed.
- b) No.
- c) Yes. We were able to reduce the number of people needed in the bindery and become more efficient moving finished product into and through distribution.
- d) In October 2003 there were 42,477 pieces and 16,666 bundles in 4059 sacks.
- e) In April 2004 there were 23,498 pieces and 9,186 bundles in 1418 sacks.

Response of Witness Schick to ABM/TW et al.-T4-12

ABM/TW et al.-T4-12. With respect to the IN STYLE situation, (a) why do you compare the costs of origin-entered sacks with the costs of destination-entered pallets? (b) Are you in fact drop shipping the pallets? (c) If so, why? (c) Did you in fact origin enter the sacks? (d) If so, why didn't you drop ship the sacks? (e) What is the weight and the editorial percentage of IN STYLE?

Response

- a) I was referencing the cost associated with the mailing from the time and place it was handed over to the Postal Service.
- b) Yes.
- c) Because the savings associated with dropshipping is greater than the cost of transportation.
- d) Unless a client has specific needs, we do not dropship sacked mail. If required, we will dropship sacks, but at a much higher cost (in many cases making it cost-prohibitive) than palletized mail, due to extra handlings and the need to containerize the sacks.
- e) The weight was 1.676 lbs and the editorial percentage was 43.20%.

Response of Witness Schick to ABM/TW et al.-T4-13

ABM/TW et al.-T4-13. (a) Why are there any sacks for IN STYLE? (b) If the rates proposed in this case were adopted, would there be any copies of IN STYLE in sacks? (c) If so, why?

Response

- a) Application of current mail preparation rules determine that a certain number of sacks can and will be created. Depending on which options are chosen, that number can increase or decrease, at instruction by the owner of the mail.
- b) There may be residual copies remaining in sacks. The rates and rules will determine how many sacks are created.
- c) As stated in b), the rates will determine if sacks are used.

Response of Witness Schick to ABM/TW et al.-T4-14

ABM/TW et al.-T4-14. In your comailing operation, do the participants in the individual pools vary from month to month (or week to week)?

Response

They can vary from week to week depending on individual schedules and frequency.

Response of Witness Schick to ABM/TW et al.-T4-15

ABM/TW et al.-T4-15. You testify at page 7, lines 1-2, that you have 120 publications in your comailing pools. (a) How many of the 120 comail their main file? (b) How many Periodicals printed by Quad/Graphics would save postage costs if they participated in comail pools with their main files, but do not participate?

Response

- a) 108 publications comail their main file as well as their supplemental or back issue mailings.
- b) Virtually all the Periodicals we print would benefit to some extent by participating in our comail pools.

Response of Witness Schick to ABM/TW et al.-T4-16

ABM/TW et al.-T4-16. What reason do publications give for choosing not to participate in comailing pools?

Response

Publications that choose not to participate usually fall into 3 categories:

- 1) Weekly publications that cannot add time to their schedule.
- 2) Longer run (large circulation) publications that would not see enough presort, pallet, and dropship gain to change their production schedules.
- 3) Publications that utilize inside the book inkjet and personalization technology, which at this time can only be done inline (as the publication is being bound).

Response of Witness Schick to ABM/TW et al.-T4-17

ABM/TW et al.-T4-17. What does "[w]e are comailing on a weekly basis" (page 7, lines 4-5) mean?

Response

It means that we schedule our comail pools every week, and manage the production within that weekly schedule.

Response of Witness Schick to ABM/TW et al.-T4-18

ABM/TW et al.-T4-18. How many comail pools does Quad/Graphics run per month?

Response

Corporate wide we are now averaging 10 per month.

Response of Witness Schick to ABM/TW et al.-T4-19

ABM/TW et al.-T4-19. (a) How many Quad/Graphics comail pools per month include at least one participant that is comailing at least 250,000 pieces? (b) How many comail pools per month include at least one participant that is comailing at least 100,000 pieces?

Response

a) 8.

b) 9.

Response of Witness Schick to ABM/TW et al.-T4-20

ABM/TW et al.-T4-20. Is it correct that, in the comail pool portrayed in your Exhibit A, there are two titles contributing more than 500,000 pieces to the pool, two more titles contributing between 200,000 and 500,000 pieces, four titles contributing between 100,000 and 200,000 pieces, four titles contributing between 50,000 and 100,000 pieces and one title with fewer than 50,000 pieces?

Response

The exhibit shows only 13 of the 45 titles included in the comailing, as its caption indicates. You are correct in regard to the number of titles with more than 500,000 copies, the number of titles with 200,000 – 500,000 copies, the number of titles with 100,000 – 200,000 copies, and the number of titles with 50,000 – 100,000 copies. However, there were in fact 33 titles with fewer than 50,000 copies. A copy of the relevant table from the exhibit, but showing all 45 titles included in the comailing, is attached to this response.

Attachment to Response of Witness Schick to ABM/TW et al.-T4-20
Page 2 of 2

Summary of Titles Used in Co-mail Analysis							
Continued – Titles 14-45							
Title ID	Production Run Type	Postal Class	Rate Type	Processing Category	Mailed Pieces	Piece Weight by Version	Ad% by Version
14	Main Run	Periodical	Regular	Flat	25,678	0.3533	34.53
15	Main Run	Periodical	Regular	Flat	23,289	0.6241	46.00
16	Main Run	Periodical	Regular	Flat	16,345	0.3387	50.00
17	Supplemental	Periodical	Regular	Flat	13,955	0.9327	57.35
18	Supplemental	Periodical	Non-Profit	Flat	13,727	0.6350	56.25
19	Supplemental	Periodical	Regular	Flat	13,086	0.9840	51.90
20	Supplemental	Periodical	Regular	Flat	12,338	0.5410	43.75
21	Supplemental	Periodical	Regular	Flat	9,841	0.5918	53.24
22	Supplemental	Periodical	Regular	Flat	9,614	1.1055	46.10
23	Supplemental	Periodical	Regular	Flat	9,381	0.5636	36.70
24	Supplemental	Periodical	Regular	Flat	8,951	0.3357	40.62
25	Supplemental	Periodical	Regular	Flat	8,793	0.6416	31.40
26	Supplemental	Periodical	Regular	Flat	8,331	0.4099	36.04
27	Supplemental	Periodical	Regular	Flat	7,686	0.5900	56.28
28	Supplemental	Periodical	Non-Profit	Flat	7,287	0.7152	43.67
29	Supplemental	Periodical	Regular	Flat	6,904	0.3474	59.17
30	Supplemental	Periodical	Regular	Flat	6,238	0.4727	51.00
31	Supplemental	Periodical	Regular	Flat	5,697	0.6243	50.60
32	Supplemental	Periodical	Regular	Flat	4,600	0.2965	0.00
33	Supplemental	Periodical	Regular	Flat	4,326	0.4326	16.00
34	Supplemental	Periodical	Regular	Flat	4,246	0.2993	36.07
35	Supplemental	Periodical	Non-Profit	Flat	3,981	0.4870	42.26
36	Supplemental	Periodical	Regular	Flat	3,847	0.5950	42.82
37	Supplemental	Periodical	Non-Profit	Flat	3,814	0.2292	18.38
38	Supplemental	Periodical	Regular	Flat	3,261	0.4757	32.26
39	Supplemental	Periodical	Regular	Flat	2,801	0.6536	57.00
40	Supplemental	Periodical	Regular	Flat	2,753	0.4787	31.72
41	Supplemental	Periodical	Regular	Flat	2,512	0.4670	46.80
42	Supplemental	Periodical	Non-Profit	Flat	2,435	0.4027	13.95
43	Supplemental	Periodical	Regular	Flat	2,157	0.4984	40.60
44	Supplemental	Periodical	Regular	Flat	1,868	0.4308	36.10
45	Supplemental	Periodical	Regular	Flat	1,553	0.4465	37.90

Response of Witness Schick to ABM/TW et al.-T4-21

ABM/TW et al.-T4-21. Please provide the names of the Periodicals identified as Titles 7-13. If, after inquiry, any of the publishers (that are not also complainants) refuse to allow you to release those names, then provide the name of the publisher.

Response

Because of confidentiality, we cannot provide the names of the publishers or the publications.

Response of Witness Schick to ABM/TW et al.-T4-22

ABM/TW et al.-T4-22. Your Exhibit A pool contains 2.7 million copies. (a) How many pieces are in your average pool? (b) How many pieces are in each of your largest five pools? (c) How many pieces are in each of your smallest five pools?

Response

- a) We have different comail processes in more than one plant. The averages are: 4,086,300 copies, 1,169,745 copies, 188,658 copies, and 31,033 copies.
- b) 8,448,002 copies, 7,029,004 copies, 6,716,229 copies, 5,903,991 copies, and 5,807,313 copies.
- c) 32,332 copies, 32,090 copies, 26,932 copies, 26,362 copies, and 25,521 copies.

Response of Witness Schick to ABM/TW et al.-T4-23

ABM/TW et al.-T4-23. You state at page 9, lines 21-22, that "a balance must be maintained for ES value of periodicals." A balance between what and what?

Response

A balance between-rates that foster efficiency and rates that recognize the ECSI value of periodicals. I believe such a balance can best be achieved by recognizing ECSI in a way that treats all editorial matter equally and requires the smallest divergence possible from rates that promote efficient mailing practices.

Response of Witness Schick to ABM/TW et al.-T4-24

ABM/TW et al.-T4-24. (a) Do you believe that cable television has substantially diminished the value of print media for the distribution of material with educational, cultural, scientific and informational value? (b) If so, should the ECSI value of Periodicals continue to be recognized in postal rates?

Response

Let me first say that as a printer, I believe that all printed material continues to have value and that hard copy distribution will be sustained for the foreseeable future.

- a) It seems logical that any widely successful new communications technology will have some effect on the roles played by pre-existing technologies. But there seems to be little agreement about either the magnitude of such effects or whether they are positive or negative, even long after the new technology is thoroughly established.
- b) See my response to ABM/TW et al.-T4-25 (b).

Response of Witness Schick to ABM/TW et al.-T4-25

ABM/TW et al.-T4-25. (a) Do you believe that the internet has substantially diminished the value of print media for the distribution of material with educational, cultural, scientific and informational value? (b) If so, should the ECSI value of Periodicals continue to be recognized in postal rates?

Response

- a) See my response to ABM/TW et al.-T4-24 (a).
- b) The recognition of ECSI value in Periodicals rates is a policy issue for Congress and the Commission to address. I possess no special expertise on the subject. However, I can say, in the context of your question, that developments in communications technology such as radio, records, broadcast and cable television, the compact disk, and the internet have an effect on the role not just of print media but of all pre-existing channels of communication. Note that those technologies have substantially expanded the availability, and lowered the cost of access to information.

Response of Witness Schick to ABM/TW et al.-T4-26

ABM/TW et al.-T4-26. Do you believe that people in business are more likely to rely upon information they receive in specialized business periodicals or on information they find in an internet news group?

Response

I have no idea how common it is for businesses to rely on internet news groups, or how reliable they consider the information in news groups to be. But there is no doubt that businesses rely more and more for information on internet resources (as distinct from internet news groups). My impression is that these resources consist mostly of sites that are used on a repetitive basis and whose institutional character is as well known as that of business periodicals in the same field. In addition, I think it is likely that the internet's extensive indexing, cross-referencing, and linking to related sources give it a tremendous advantage as a source of many types of business information. I therefore cannot say that businesses in general are more likely to rely on the information they find in print media than the information they find on line.

Response of Witness Schick to ABM/TW et al.-T4-27

ABM/TW et al.-T4-27. Do you believe that medical pract[it]ioners are more likely to rely upon information they receive in specialized medical periodicals or on information they find in an internet news group?

Response

I know nothing about the likelihood of their relying on internet news groups.

However, with respect to internet resources in general, I would not be surprised to find that doctors today are more likely to seek out specialized medical information from some of the large on-line databases sponsored by leading research hospitals and universities and national medical institutions.

Response of Witness Schick to ABM/TW et al.-T4-28

ABM/TW et al.-T4-28. Do you agree or disagree with the following statement, and why: setting postal rates for periodicals in a manner that recognizes their educational, cultural, scientific and informational value is no longer necessary, given the changes in communications, printing, information sharing and transportation in the past 100 years.

Response

Disagree. See my response to ABM/TW et al.-T4-25(b).

Response of Witness Schick to ABM/TW et al.-T4-29

ABM/TW et al.-T4-29. Your testimony, for example at page 11, lines 1-2, states that, with the proper incentives, the mailing industry will react. Does Quad/Graphics' comailing and copalletizing operations indicate that the present rate structure offers adequate incentives for printers to provide those services?

Our venture into comailing was initiated when Quad/Graphics was a one-plant printer. We decided to give it a try because we thought it would help us compete in an industry where we were the "little guy." Over time the incentives have grown, and we have attracted more publishers. I do believe that today there are adequate incentives to provide comailing services. I do not believe that there are currently adequate incentives to offer copalletization services. We are only able to claim copalletization discounts as a result of comailing.

Response of Witness Schick to ABM/TW et al.-T4-30

ABM/TW et al.-T4-30. Approximately how many periodical printers are there in the United States?

Response

I do not know.

Response of Witness Schick to ABM/TW et al.-T4-31

ABM/TW et al.-T4-31. Approximately how many periodical printers in the United States offer comailing services?

Response

I do not know.

Response of Witness Schick to ABM/TW et al.-T4-32

ABM/TW et al.-T4-32. Approximately how many periodicals (that are entered into the mail) are printed at printers that do not offer comailing services?

Response

I do not know.



Response of Witness Schick to ABM/TW et al.-T4-33

ABM/TW et al.-T4-33. Approximately how many periodical printers in the United States offer copalletizing services?

Response

I do not know.

Response of Witness Schick to ABM/TW et al.-T4-34

ABM/TW et al.-T4-34. Approximately how many periodicals are printed at printers that do not offer copalletizing services?

Response

I do not know.

Response of Witness Schick to ABM/TW et al.-T4-35

ABM/TW et al.-T4-35. (a) If a Quad/Graphics customer signed a three-year printing contract and six months later asked to be let out of the contract, because the customer found another printer that could print and mail its products less expensively, is it Quad/Graphics' policy to let that customer out of that contract without penalty? (b) What is the policy of other printers in this situation, insofar as you are aware?

Response

- a) All contracts are written differently, and I would say that in most cases both sides have out clauses that allow the business relationship to be discontinued. Some may provide for clean separations without penalties, while others may include penalties.
- b) I do not know, but would suspect that the policies would be similar.

Response of Witness Schick to ABM/TW et al.-T4-36

ABM/TW et al.-T4-36. You testify at page 11, lines 3-15, that, with greater incentives for more highly workshared periodicals, more printers and other mailers will invest in the technology, software and other processes necessary to take advantage of those incentives. Would you characterize those investments as major?

Response

It is impossible to generalize, although the cost of some technologies, such as software and computers, may be lower or be declining more rapidly than the cost of others.

Response of Witness Schick to ABM/TW et al.-T4-37

ABM/TW et al.-T4-37. Please state your understanding of the Postal Service's investigation of delivery point sequencing flats.

Response

I know that the Postal Service is in the R&D phase of a bid process with a number of major equipment vendors, trying to determine whether sequencing of flats would be cost effective.

Response of Witness Schick to ABM/TW et al.-T4-38

ABM/TW et al.-T4-38. Is there a reasonable chance that, if the Postal Service does in fact move forward with delivery point sequencing of flats, and does so at the plant or SCF level, the value to the Postal Service of the carrier route and 5digit presort will be significantly reduced or eliminated?

Response

It is my understanding that the sequencing of flats would result in the elimination of carrier route bundles, as we know them today. However, it is also my understanding, based on comments by the Postal Service, that 5 digit bundles would be retained and be the sort of preference.

Response of Witness Schick to ABM/TW et al.-T4-39

ABM/TW et al.-T4-39. Would it be irrational for a printer that has not made the investment necessary to comail on a large scale to defer making that investment until the Postal Service has decided what it intends to do with delivery point sequencing of flats?

Response

That would be the individual decision of each printer. In my opinion, based on comments from the Postal Service regarding future rate structures, there will be more value placed on the number of bundles and containers produced in each mailing and the handlings associated with those bundles and containers. There will also be a premium placed on getting out of sacks. For those reasons, there should always be value in comailing and copalletization.

Response of Witness Schick to ABM/TW et al.-T4-40

ABM/TW et al.-T4-40. You state at page 11, lines 16-19, that there are "situations" in which a printer or publisher may not be able to change its mail preparation or design as a reaction to the type of rate structure you support in this case. Separately for printers and publishers, please list and explain all such situations of which you are aware.

Response

I am not familiar with all of the situations that may occur for other printers and the publishing industry. However, situations that I can relate to with our clients and our production process would be:

- 1) Publications with daily or weekly production schedules that would be difficult to adjust or expand.
- 2) Publications with different trim sizes (digest or tabloid) because of limited comailing partners of the same size in the same location.
- 3) Publications that use printed poly specific to their publication.
- 4) Publications that insert multiple pieces into a polybag along with the publication.

These situations do not preclude being able to make changes to mail prep or production, but they do make it more difficult. Business decisions would have to be made by everyone.

Response of Witness Schick to ABM/TW et al.-T4-41

ABM/TW et al.-T4-41. At page 12 lines 1-5, you analogize to presort bureaus and Parcel Direct. Please explain the operations of presort bureaus and Parcel Direct.

Response

I am not very knowledgeable in regard to presort bureaus, other than knowing basically that they bring in mail from a number of sources that either choose not to or are unable to presort and/or barcode their mail for whatever reason, run the mail through high speed sorting equipment similar to what the Postal Service has deployed to presort and barcode the mail, present the combined mail to the Postal Service, pay the appropriate rate of postage for the combined mailing, and then share in the savings with all of their customers.

Parcel Direct, a consolidator of parcels, was established when incentives were implemented for dropship parcels. We bring in parcels from a number of different clients, who by themselves would not be able to claim those dropship rates (mainly DDU rates). We then run the parcels through our parcel sorters, sort to either the BMC or DDU, and then transport the parcels directly to the destinating facility.

Response of Witness Schick to ABM/TW et al.-T4-42

ABM/TW et al.-T4-42. Does the Postal Service sort bundles of periodicals onto pallets?

Response

To my knowledge, at this time the USPS does not sort bundles of Periodicals onto pallets. The bundles are placed in some type of rolling stock and moved through the system in that manner.

Response of Witness Schick to ABM/TW et al.-T4-43

ABM/TW et al.-T4-43. At page 12, lines 9-10, you state that Quad/Graphics must reduce the time of production in its comailing operation to "improve the speed to market." Please explain how a comail pool is formed and implemented, including the maximum, minimum and average times in a typical Quad/Graphics pool between when a periodical is ready for printing and when it is ready for dropshipping (or mailing).

Response

Every publication has its own schedule. Schedules are built by starting at the end of the last process (mail delivered to a subscriber) and moving backward towards the start of the process (paper received at the printing plant). Depending on the number of pages, total print count (including newsstand, bulk, etc.), other work in our plants at the same time, availability of supplied inserts, and any number of other variables, a schedule for the press room, bindery, comail pool and dropship pool is created. The number of days from being on press with the first signature (printed grouping of pages) to when the mail is loaded into a trailer for dropshipment and delivery can vary greatly. It could be as much as 2-3 weeks or as little as 1 day. Depending on the size of the comail pool, it may add 2-5 days to the total production process at Quad. However, when factoring in the number of days gained in postal processing, distribution, and delivery, it usually is either the same or slightly less time end-to-end.

With a comail pool every week, clients fall into the appropriate pool based on when their production schedule makes the finished publication available from the bindery, and when they are able to provide us with their subscriber list for presort. The subscriber lists are really the critical element in comailing. All the lists of all the publications must be in our hands before the combined presort can be done, and once all the lists are presorted as one, there is basically no turning back. The publication is committed to the comail.

Response of Witness Schick to ABM/TW et al.-T4-44

ABM/TW et al.-T4-44. (a) Are participants in comailing pools required to guarantee that they will be ready for printing at any particular time? (b) If so, how big a window are they given? (b) [c] If there is a window, is the window different for different participants or different pools? (d) If time commitments are required, what happens if a particular periodical fails to meet its commitment?

Response

- a) They are required to commit to the schedule that we have all agreed to.
- b) There is always some flexibility in all aspects of the schedule, so it will vary by client.
- c) It does vary, and will depend on the circumstances and can vary based on the other production and jobs that are running in the plant at the time.
- d) As mentioned in ABM/TW et al.-T4-43, once the lists are presorted together, there is no turning back without considerable cost to all parties involved. So there have been very few instances since we started comailing where a client did not participate because of being late. If that were to happen, the list would have to be presorted again at a cost to the publication that caused the problem.

Response of Witness Schick to ABM/TW et al.-T4-45

ABM/TW et al.-T4-45. Why is it beneficial to move volume from postal transportation to private transportation?

Response

I think it's beneficial for 2 reasons: 1) private transportation provides for more control of the product for a longer period of time, reducing the number of bad things that could happen in postal processing and distribution; and 2) moving Periodicals to private transportation in instances where private transportation is more efficient than USPS transportation should help the USPS better control their costs by allowing them to continue to reduce their transportation infrastructure to be more aligned with the current mail volumes that they can transport most efficiently, and should help mailers and the national economy by reducing the total combined cost of transportation and delivery.

Response of Witness Schick to ABM/TW et al.-T4-46

ABM/TW et al.-T4-46. To whose "costs" do you refer on line 12 of page 13?

Response

I am referring to the total combined costs of transportation and delivery.

Response of Witness Schick to ABM/TW et al.-T4-47

ABM/TW et al.-T4-47. Please provide a list of those printers that are willing to co-palletize or pool ship periodicals of other printers with those they print themselves.

Response

I do not know.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-48

ABM/TW et al.-T4-48. With regard to your testimony at page 2 lines 18-20 that “[w]e are forced to make decisions that we know are not in the best interest of the ‘lowest combined costs’ model,” please state whether the nature of any such decisions is fully addressed on page 3 of your testimony, and, if not, please specify the nature of any such decisions that are not driven by a need for expedited delivery.

RESPONSE

Expedited delivery is the predominant reason for those decisions, and is addressed on page 3. However, there are situations where a publisher decides to create a number of versions of a publication but, because the postal savings would not be sufficient to cover the cost of comailing, selective/demographic binding, or copalletization to bring everything back into one mailstream, each version would be presorted and prepared individually. The result is presort loss, less opportunity to create pallets, and a reduction in the number of copies that would be dropshipped.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-49

ABM/TW et al.-T4-49. With regard to your testimony at page 3 lines 8-11, please state the approximate percentage of Quad/Graphics Periodicals mail volume that is prepared in sacks, including the percentage mailed in sacks to shorten delivery time and the percentage mailed in sacks for other reasons. Please specify such other reasons.

RESPONSE

We are not able to determine the exact sack volume specific to the reasons for creating sacks, but the following percentages show comparisons between sack and pallet volumes by number of copies and containers for all of our plant locations on an annualized basis:

	Copies	Container
Pallet	95%	33%
Sack	5%	67%

What this illustrates is that two thirds of the containers we create are sacks, containing only 5% of the Periodicals mail volume. The average sack size is around 40 pieces.

In addition to sacks being created because of delivery requirements, sacks can be the result of supplemental and back issue mailings, or polywrapped mailings/versions. Some of our smaller circulation publications that may not qualify for our comailing, because of size and/or weight, also generate sack volume.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-50

ABM/TW et al.-T4-50. With regard to your testimony at page 4, lines 3-9, please explain fully how Quad/Graphics accommodates a publisher who "wants and needs the lowest postage rates and the quickest, most efficient delivery."

RESPONSE

In our binding operation, we utilize our selective/demographic binding capabilities to combine as many versions as possible into one mailstream, *maintaining the best possible presort*. We also utilize the minimum weight requirements for palletization at the levels that are acceptable to the publisher. Depending on the publisher, that could be either ADC or SCF level pallets. In distribution, we attempt to move the publications into our normal mail pools where schedules allow, or combine them with other product loads going to the same cities. We also utilize over-the-road transportation *instead of air* by using team drivers, as long as they can still meet critical entry times at postal facilities.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-51

ABM/TW et al.-T4-51. Please explain the extent to which the comailing process may delay delivery of publications, and preclude the quickest delivery, and explain the reasons for this result.

If a publication were comailing in-line (during the binding process), the length of run in the binding process would be extended because of the added volume of the other publication(s). For some time-sensitive publications that could mean missing a normally scheduled dispatch from the printing plant, which could result in missing a critical entry time at a postal facility.

If a publication were comailing off-line (previously bound and moved to a separate mailing operation), the total production time would be increased because of the addition of another production operation. As previously stated, that could result in a missed dispatch and critical entry time.

However, with the exception of weekly publications, our experience has shown that the gain in presort, containerization, and dropship can offset the additional production time by eliminating much of the postal handling and processing.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-52

ABM/TW et al.-T4- 52. (a) With reference to your testimony at page 7, lines 15-20, please explain whether all comailings by Quad/Graphics are 99+% palletized and will be 100% palletized in the near future. (b) If and to the extent that not all such comailings are or will be palletized to that degree, please explain the factors that lead to differentiation in degrees of palletization.

RESPONSE

- a) In my response to ABM/TW et al.-T4-22, I showed the various average sizes of our comail pools. The comail pools with the lowest total copy count would have less than 99% palletized mail. A general rule of thumb would be that volumes less than 100,000 copies would have lower palletized volumes. So as those comail pools increase in size, the likelihood is that they would move closer to 99% palletized in today's environment, and would then be able to be 100% palletized with software enhancements and changes to preparation requirements relative to a cost-based rate structure.
- b) Palletization can be affected by versioning, total volume, piece weight(s), and density of the mailing, and whether the mailing is local, regional, or national.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-53

ABM/TW et al.-T1-53. With regard to your testimony at page 4, lines 1-2, please explain how the use of sacks affects costs incurred by Quad/Graphics, and the extent to which any such additional costs are passed on by Quad/Graphics to publishers.

RESPONSE

The use of sacks at Quad impacts cost in these areas:

- 1) incoming MTE (Mail Transport Equipment) being unloaded in the plants (because of volume compared to pallets);
- 2) warehouse required for sacks (because of lack of stackability and volumes compared to pallets);
- 3) material handling of sacks from warehouse to bindery (because of volumes compared to pallets);
- 4) additional labor needed on binding line(s) (sacks versus pallets);
- 5) sacked mail much more likely to be prepared incorrectly than palletized mail, which could result in postage assessments or rework;
- 6) material handling of sacks from bindery to warehouse (slower process and more skids of sacks created than palletized mail);
- 7) warehouse required for finished mail (because of lack of stackability);
- 8) cost of containers (to compensate for lack of stackability, in some plants we purchase containers for internal movement and warehousing only);
- 9) loading of trailers (much more time needed to load sacks than pallets – 1 hour versus 20 minutes per trailer);
- 10) specialized dumping equipment on forklifts for trailer loading of sacks.

In terms of how these costs are reflected in client pricing, there are not specific charges to clients related to most of the aforementioned issues. However, if the majority of a mailing consisted of sacks, there would be additional charges because of added labor or machine slowdown. There would also be specific additional costs charged to a client if the sacked mail had to be dropshipped: the cost of the

Response of TW et al. Witness Schick to ABM/TW et al.-T4-53

containers that the sacks are shipped in, and the higher cost for distribution of sacks because they are not conducive to efficient loading of trailers.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-54

ABM/TW et al.-T4-54. With regard to your testimony at page 3, lines 19-24, please explain (a) the nature of the change to presort parameters that led to the reduction of sacks mailed by In Style, and (b) what incentive led In Style to make such change.

RESPONSE

- a) Sack minimums were raised to 24 copies and the Mixed ADC sack level was set to one copy. The ADC pallets were set to 250 pounds and three digit pallets were not allowed.
- b) We advised Time Inc. that In Style's high volumes of sacked copies required extra labor on the binding line and that we would have to begin charging for this extra labor if we could not find a way to reduce the number of sacks.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-55

ABM/TW et al.-T4-55. With regard to your testimony at page 4, lines 16-18, and page 5, lines 16-18, please explain (a) how the proposed rate structure would affect the viability of the printing industry, (b) how the proposed rate structure would affect smaller printers, and (c) how the proposed rate structure would help further differentiate Quad/Graphics from its competition.

RESPONSE

- a) By creating the right incentives, printers would be able to invest in technologies that not only help publishers to reduce postage, but also help to increase the value of periodicals by creating editorial and advertising opportunities that don't exist today. Technologies and processes like selective binding, comailing, and copalletization allow publishers to offer more targeted advertising or editorial content, which will generate more interest from advertisers and subscribers, which will result in more pages printed.
- b) I don't pretend to speak for the smaller printers, but I would think that they have the same basic goals that we do at Quad. They should be interested in doing whatever they can to increase the value of periodicals in the eyes of advertisers and subscribers, while at the same time trying to maintain hard-copy distribution through the Postal Service as the most cost-effective way of getting your publication to the consumer. The incentives in the proposed cost-based rate structure would provide the opportunity to move in that direction.
- c) We think that the proposed rate structure is the right approach because it would allow us to build on technologies and processes that we have proven to be effective for the Postal Service, our clients, and Quad. It will also allow us to open our creative minds to do things that have been on the drawing board for some time, but would not be cost-effective within the current rate

Response of TW et al. Witness Schick to ABM/TW et al.-T4-55

structure. When we can be creative, it helps us to differentiate Quad from our competitors by offering more value to our clients, which helps them to offer more value to their advertisers, subscribers, or end consumers. That generates more mail, providing more revenue to the Postal Service. That's what keeps the industry moving forward.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-56

ABM/TW et al.-T4-56. With regard to your testimony at page 5, lines 21-22, please state the extent to which Quad/Graphics shares in the postage savings generated by comailing and other forms of pooling.

RESPONSE

Our agreements with our clients are confidential, but I can say that we developed a comail program that we felt was equitable to our clients. It was developed in a way that would always provide a positive result for the clients. We did that to ensure that they would stay committed to the comail pool, so that we could continue to build volumes to a point where we are today.

In distribution and pool shipping, there is no sharing of postage. It's a freight business, and the client pays the appropriate freight charges for the amount of mail that is dropshipped.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-57

ABM/TW et al.-T4-57. (a) Please provide your best estimate of the minimum investment required of a printer, in terms of both cost and the type of equipment, technology, software and processes required, in order to efficiently comail Periodicals. (b) Please provide your best estimate of the minimum number of titles and total Periodicals mail volume that a printer must handle in order to justify such investment and efficiently comail Periodicals.

RESPONSE

- a) Comailing can be done on much of the existing equipment that is found in every printer's plant today. If a printer has selective binding capabilities, they can comail. The amount of comailing is limited, but it can be done. Comailing can be done on polywrapping equipment that is being used by the majority of printers today, although there may be a need for modifications. Equipment built specifically for comailing is readily available from a number of different vendors today. The software to drive the comail process is essentially the same as that being used for selective binding. Comailing operations also require the same ancillary equipment (strappers and shrinkwrappers) that would be used on a binding line.

The process for in-line comailing is no different from that used for selective binding today. The process for off-line comailing can differ in methods used, but basically starts by binding the publication without labeling, moving the publication to an off-line comailer, feeding the publications into the comailer, and then labeling, packaging, and palletizing the publication.

The cost for a fully equipped comailing production line can vary greatly, depending on the size of the machine (number of feeder pockets), the type of machine (polywrapper or comailer), and the amount of extras (different addressing options, video recognition system, etc.). As an estimate, you

Response of TW et al. Witness Schick to ABM/TW et al.-T4-57

could expect to pay from \$500,000 to \$2 million for a complete comail production line.

- b) There really isn't a magic number of titles or total mail volume that will cost justify the investment in comailing equipment. The savings, which would include presort discounts, pallet discounts, copalletization discounts, and dropship discounts, generated by comailing, can vary from comailing to comailing. When we started comailing in the mid-80's, we were comailing about 10 titles that had a total combined volume of less than 250,000 total copies. At the time, we felt that was enough to justify the investment. We started a comail operation in one of our plants within the last year that consists of no more than 6 titles and from 30,000 to 130,000 total copies. We felt that was enough to justify the investment. Why? Because we believe that the volume will continue to grow and the incentives will continue to grow as well, reflecting the cost savings we are creating for the Postal Service.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-58

ABM/TW et al.-T4-58. With reference to your testimony at page 12, lines 17-18 that “[i]n most cases today, publications with low advertising will not see enough savings to justify the cost [of dropshipping]” (emphasis added), (a) please state what you mean by low advertising, in terms of a percentage or range; (b) please estimate the extent, in terms of volume and percentage of Periodicals volume, to which such low advertising publications are printed at Quad/Graphics, and the extent to which they are comailed; and (c) please explain the circumstances in which some low advertising publications do see enough savings to justify dropshipping, and please estimate the extent to which this occurs.

RESPONSE

- a) The average advertising percentage for our Periodicals client base is about 30-40%, but we have clients that maintain zero percentage of advertising as well as numerous non-profit periodicals that establish and maintain less than 10% advertising in their publications. For purposes of dropship consideration, I would equate low advertising with about 15% advertising.

- b) I do not have exact numbers related to how many publications we mail that have lower advertising percentages, but there are many with less than 15%, particularly in the last few years when the advertising market has been depressed. Some comail, and some mail by themselves, [depending on all the variables that have been previously mentioned related to why periodicals would choose not to comail or would not qualify for comail in our current production process. Advertising percentages alone do not preclude any publication from participating in our comail process.

- c) When we look at the possibility of dropshipping a periodical, there has always been an advertising percentage threshold that provides a fairly good indication of whether there will be sufficient savings to offset the cost of transportation. That percentage has changed over time as a result of the shifts in rates applied to each zone and the changes in the SCF piece

Response of TW et al. Witness Schick to ABM/TW et al.-T4-58

discount. For example, 10 years ago we would probably not have dropshipped a periodical with less than 35% advertising. It just would not pay. The cost of transportation would outweigh the savings realized by zone skipping. Five years ago a periodical with less than 25% advertising would not have dropshipped in most cases. Because of changes to the Periodicals rate structure, level of pallets, and our total dropshipped mail volume, today we would consider any periodical with less than 15% advertising as a possible dropship candidate, but only after analysis can we be sure that any portion of the mailing will qualify for dropshipment. In any case, we are still dependent on the total copy count, weight of the piece, and density to a specific area of the country. The portion of the mailing that dropships will usually end up being determined by the level of pallets and the entry points that we have scheduled. In many cases, it's more cost-effective for us to add the pallets to a dropship load, where space is available, than sending the pallets out as local entered. It also helps to ensure more consistent delivery for our clients.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-59

ABM/TW et al.-T4-59. What percentage of Periodicals produced by Quad/Graphics do you project would be dropshipped if the presently proposed rate structure were to be implemented? For any response that is less than 100%, please explain what factors apart from the editorial pound charge operate to inhibit or preclude dropshipping to that extent at the present time.

RESPONSE

In our overall process I can't say that 100% of our periodicals will dropship, but the number should be very close to that level. I expect that we will always have a small percentage of mail that will fall out of dropship, comail, copalletization, or some other yet to be determined process. In most cases it will probably be caused by the complexity of mailings, which could include multiple versions, polybagging with numerous inserts, or smaller circulation periodicals with tight production and delivery schedules.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-61

ABM/TW et al.-T4-61. Please identify all other printers that you believe may have a larger Periodicals comailing volume than Quad/Graphics, and separately identify all other printers that you believe may have a larger investment than Quad/Graphics in the comailing of Periodicals. In each case, please estimate/describe the volume/investment.

RESPONSE

I do not have that information.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-62

ABM/TW et al.-T4-62. Please identify all other printers that you believe may have a Periodical comailing volume, and/or investment in the comailing of Periodicals, that is comparable to that of Quad/Graphics. In each case, please estimate/describe the volume/investment.

RESPONSE

I do not have that information.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-63

ABM/TW et al.-T4-63. Please estimate and explain the time and resources that would be necessary for a Periodicals printer that does not presently engage in comailing to achieve an investment in comailing of Periodicals and a Periodicals comailing volume comparable to that of Quad/Graphics today.

RESPONSE

A Periodicals printer could make the investment in comailing comparable to where we are today in a relatively short period of time as long as they are willing to spend the money, and if they have the floor and building space to house the operation. They could probably have the equipment and software systems in a 12-18 month period. However, if they were to utilize current manufacturing equipment like a polywrapper, it could be possible to modify the machine and be ready for production in a much shorter period of time. Predicting how long it would take to amass the volume needed is not possible. As mentioned in my response to ABM/TW et al.-T4-57, total volume is not the only determinant of the success of a comailing.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-64

ABM/TW et al.-T4-64. Please identify all printers other than Quad/Graphics that you believe may have a substantial Periodicals comailing volume and/or substantial investment in the comailing of Periodicals, to the extent that you view them as a serious actual or potential competitor. In each case, please estimate/describe the volume/investment.

RESPONSE

I do not have that information.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-65

ABM/TW et al.-T4-65. Please describe and quantify (a) the investments already made by Quad/Graphics in comailing and copalletization, respectively, and (b) the further investments in comailing and copalletization, respectively, that Quad/Graphics would likely make if the proposed rate structure were to be adopted. Please explain how such changes would reflect the "Ready, Fire, Aim" philosophy referred to at page 8 line 11 of your testimony.

RESPONSE

- a) We have built a comailing operation in a number of our plants that utilizes multiple production lines and production processes. We have not made any investments in a copalletization process other than modifying our comail software, so that we can produce the necessary documentation to claim copalletization discounts in our comail process.

- b) In all probability we would continue to invest in more comail equipment in all plants, and at the same time begin to develop a copalletization process that will complement and add value to our comail process. Because comail and copalletization will result in more mail qualifying for dropship, we'll probably also look to expand our distribution capabilities either by adding more capacity or bringing on more valued partners. I would also expect that we would look to automate the material handling process by revisiting the work that the industry and Postal Service have done in some of the aforementioned MTAC Work Groups that were focused on developing a new flats container.

The proposed rate structure and our reaction would reflect our "Ready, Fire, Aim" philosophy because we would have a clearer vision of the direction the Postal Service is taking, and would be able to take a "hunchmanship" approach to making decisions. That is, if you know your strengths and the direction of your customers and business partners, your hunch should be less

Response of TW et al. Witness Schick to ABM/TW et al.-T4-67

ABM/TW et al.-T4-67. Separately for each of QuadGraphics' printing plants, please provide a list of the Periodicals printed (which can be coded so that names are not revealed, if you prefer, but a single publication should carry the same code throughout the response), and for each publication so identified provide the following information (for a recent, typical issue on items (2) –(7)): (1) publication frequency (2) approximate print run at that plant, (3) approximate number of copies in the main file that are printed at that plant, (4) the number of printing locations at which it is printed (whether or not all such locations are QuadGraphics plants), (5) whether the main file at that plant is copalletized, and if so where, (6) whether the main file at that plant is comailed, and (7) whether 100% of the copies of the main file of the publication at that plant are mailed in sacks.

RESPONSE

The specific information requested regarding publication by print facility, whether the publication prints in more than one facility, and how it is split up between those facilities is proprietary. Copalletization that we provide our clients is done through our comail process. So any publications that comail would also be copalletized. The information reflects activity during the last 4 months, and the numbers have been averaged. Because of individual contracts and the way jobs are billed, much of the specific information that has been requested is not maintained in our systems.

- 1) The information is contained in the attached spreadsheet.
- 2) We can only provide the information related to mailed copies, and that is contained in the attached spreadsheet.
- 3) The information provided in the spreadsheet reflects all mailed copies. We are not able to discern between main file and supplemental mailings.
- 4) Proprietary information
- 5) The information is contained in the attached spreadsheet.
- 6) The information is contained in the attached spreadsheet.
- 7) We do not maintain that level of data, and are not able to provide.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-66

ABM/TW et al.-T4-66. With reference to your testimony at page 11 lines 14-15 that "comailing equals copalletization without the extra work," (a) please specify and explain the extra work involved in copalletization, (b) please provide your best estimate of the minimum investment required of a printer, in terms of both cost and the type of equipment, technology, software and processes required, in order to efficiently copalletize Periodicals, and (c) please provide your best estimate of the minimum number of titles and total Periodicals mail volume that a printer must handle in order to justify such investment and efficiently copalletize Periodicals.

RESPONSE

- a) Copalletization would generally be achieved in one of two ways: 1) a manual process of moving packages from multiple mailings to one common pallet; or 2) utilizing a mechanical or automated package sorting process similar to what the Postal Service uses. In either case, it is an additional process.
- b) If using a manual process, the cost determinants would be labor and building space. The process is very much the same as is done today with newsstand publications. The cost could range from about 25 to 40 cents per package handled, depending on the number of people involved. For a mechanical or automated process, the entry cost would be greater, but can vary. The type of equipment and associated costs would be very similar to the Postal Service's costs in deploying LIPS (Linear Inline Package Sorter), SPBS (Small Parcel and Bundle Sorter), and the Parcel Sorter. If we were to get into copalletization, one or more of these variations would probably be the logical choice of equipment. Costs could range from \$250,000 to \$2 million, depending on the type of equipment, number of possible sorts, and scanning and read capabilities.
- c) Again, it would be very difficult to estimate the number of titles and mail volume needed to justify the investment.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-65

risk-averse, and you can make quicker decisions that will get you ahead of the game.

Attachment to Response of TW et al. Witness Schick to ABM/TW et al.-T4-67

Title #	Average # of Mail Pieces per Issue	Issues per Year	Comail/Copal Main Run
1	1,708,159	52	N
2	1,624,040	12	N
3	1,593,675	52	N
4	1,592,912	52	N
5	1,575,527	6	N
6	1,541,613	6	N
7	1,449,261	6	N
8	1,109,322	6	N
9	1,053,446	10	N
10	849,883	52	N
11	802,854	10	Y
12	791,980	6	N
13	758,571	6	N
14	742,305	12	N
15	672,860	12	N
16	590,318	52	N
17	562,768	6	N
18	530,086	6	N
19	521,280	12	Y
20	517,166	52	N
21	502,536	52	N
22	485,861	8	N
23	470,050	6	N
24	445,862	11	Y
25	424,843	12	Y
26	420,052	10	Y
27	418,400	12	N
28	415,521	10	N
29	379,499	12	Y
30	379,167	12	N
31	367,522	12	N
32	367,117	12	N
33	367,017	12	N
34	359,360	6	N
35	346,172	10	Y
36	344,166	52	N
37	341,173	12	N
38	332,892	4	N
39	327,295	1	Y
40	278,000	12	N
41	271,563	12	Y
42	258,296	10	Y
43	257,785	12	Y
44	228,051	10	Y
45	210,145	52	N
46	208,897	12	N
47	203,348	26	N
48	202,261	18	Y

Attachment to Response of TW et al. Witness Schick to ABM/TW et al.-T4-67

Title #	Average # of Mail Pieces per Issue	Issues per Year	Comail/Copal Main Run
49	200,104	12	Y
50	199,994	12	N
51	199,834	4	N
52	199,552	12	Y
53	190,979	6	Y
54	188,855	12	N
55	188,775	12	Y
56	184,680	12	Y
57	180,027	12	Y
58	173,131	12	Y
59	165,732	12	Y
60	164,503	6	Y
61	155,641	48	N
62	154,720	6	Y
63	151,720	10	Y
64	150,900	12	Y
65	146,672	4	Y
66	141,312	6	Y
67	140,634	12	Y
68	138,238	10	Y
69	137,945	6	Y
70	134,023	12	Y
71	134,009	12	Y
72	114,997	12	Y
73	113,392	6	Y
74	111,719	12	Y
75	110,123	26	N
76	108,052	6	Y
77	105,376	6	N
78	102,443	4	Y
79	98,204	6	Y
80	96,992	6	Y
81	96,431	52	N
82	88,673	6	N
83	85,466	10	N
84	82,350	10	Y
85	81,546	11	Y
86	77,470	22	N
87	68,668	12	Y
88	68,268	10	Y
89	65,339	6	Y
90	65,256	8	N
91	63,709	6	Y
92	63,185	6	Y
93	62,943	52	N
94	62,534	12	Y
95	62,352	6	Y
96	61,892	10	Y

Attachment to Response of TW et al. Witness Schick to ABM/TW et al.-T4-67

Title #	Average # of Mail Pieces per Issue	Issues per Year	Comail/Copal Main Run
97	60,900	10	N
98	58,082	6	Y
99	56,785	6	Y
100	56,656	11	Y
101	56,077	6	Y
102	54,919	4	Y
103	54,152	8	N
104	54,009	12	Y
105	51,834	12	N
106	51,771	12	Y
107	50,248	6	Y
108	46,682	18	N
109	46,525	12	Y
110	45,560	26	N
111	45,233	12	Y
112	45,131	4	N
113	44,120	12	N
114	42,644	8	Y
115	41,717	8	Y
116	40,450	6	Y
117	40,207	12	Y
118	38,869	8	Y
119	38,686	6	Y
120	37,638	12	Y
121	37,572	6	Y
122	34,697	6	N
123	34,534	52	N
124	34,385	6	Y
125	32,028	9	Y
126	30,249	52	N
127	26,992	6	Y
128	26,669	6	Y
129	25,717	6	Y
130	25,614	12	Y
131	24,377	13	Y
132	23,951	12	Y
133	23,387	6	Y
134	22,736	12	N
135	22,582	13	Y
136	22,207	6	Y
137	21,755	52	N
138	18,360	4	Y
139	18,200	12	N
140	17,568	4	Y
141	16,727	6	Y
142	16,613	1	N
143	16,235	13	Y
144	15,743	12	Y

Attachment to Response of TW et al. Witness Schick to ABM/TW et al.-T4-67

Title #	Average # of Mail Pieces per Issue	Issues per Year	Comail/Copal Main Run
145	14,737	12	N
146	14,576	10	Y
147	14,427	6	Y
148	13,930	7	Y
149	12,731	6	Y
150	12,579	6	Y
151	12,137	12	Y
152	12,068	6	Y
153	11,976	6	Y
154	10,523	12	Y
155	10,379	12	N
156	10,007	12	Y
157	8,984	6	Y
158	8,091	6	N
159	7,946	6	Y
160	7,136	6	Y
161	5,905	6	N
162	5,735	12	N
163	5,555	12	Y
164	4,445	4	N
165	3,692	6	N
166	3,656	6	Y
167	3,285	4	Y
168	3,174	10	N
169	2,603	12	N
170	1,813	6	Y
171	1,200	1	N

Response of TW et al. Witness Schick to ABM/TW et al.-T4-68

ABM/TW et al. -T4-68. Assume that there is a publication with a mailed circulation of 120,000 copies and that it is prepared in 70 different demographic versions, ranging in size from 150 copies to 2,500 copies per version. Please discuss the practical (including paperwork) difficulties in comailing or copalletizing that publication and how you would overcome those difficulties.

RESPONSE

There are specifications and parameters built into our comailing process, just as there are specifications and parameters for everything we produce in our other production processes. Our experience shows that in most cases it is *not* practical to selectively bind or comail versions with less than 1500 copies. It is a production issue. The larger versions could be considered for comailing, but an analysis would have to be done to determine the overall results for all versions.

It could be practical to copalletize the packages created within each version, but that would most likely depend on what other mail was available to be included in the copalletization process. Without having more information, i.e., Mail.Dat files, it is difficult to determine what can and can't be done to any mailing (large or small).

Response of TW et al. Witness Schick to ABM/TW et al.-T4-69

ABM/TW et al-T4-69. Please address the practical difficulties that would be faced by a short-run printer seeking to comail or copalletize periodicals in standard trim size, tabloid size and digest size. Please address in your response whether these sizes can be combined for purposes of comailing or copalletizing.

RESPONSE

As mentioned in my response to ABM/TW et al.-T4-68, there are specifications built into our comailing process. Some are guided by postal requirements, and some are guided by production constraints. All of the publication sizes mentioned can run on comail equipment. However, the constraint is in the packaging of different size publications. There can be some variance in trim sizes, but not to the extent of digest and standard size, or standard size and tabloids. We could create packages with all of those different sizes, but quality would suffer when strapping and shrinkwrapping were applied, as larger publications would be folded over around the other publications. I assume that these same constraints would apply to a short-run printer.

If we were able, at some point, to move forward with development of a new flats container such as a tray, tub, or log, I would think that the packaging constraint would be resolved.

Copalletization would not be affected by the trim size differential. Since all publications of the same size are packaged together, the packages can be palletized together on the same pallet, regardless of whether different packages contain publications of different sizes. It may be a little difficult to design a pattern for building the pallet, but it can be done.

Response of TW et al. Witness Schick to ABM/TW et al.-T4-69

For both comailing and copalletization, current postal requirements state that mail within a package and on a pallet must be able to be processed on the same type of postal sorting equipment (i.e. – all for AFSM100 or all for FSM1000).

Response of Witness Schick to USPS/TW et al.-T4-1

USPS/TW et al.-T4-1. On page 1, line 20 of your testimony, you state that the annual postage bill for Quad/Graphics, Inc. is more than \$2 billion. In percentage terms, please estimate the increase or decrease you expect to see in that bill if the rates proposed by witness Mitchell (TW et al.-T1-1, page 43) were to be adopted and implemented.

|

RESPONSE

I would expect, that on average, many of our clients would see a decrease in postage if the proposed rate structure were implemented. There would however, be situations where our clients will have mailings, or portions of mailings, that would see an increase in postage under the proposed rate structure. For those clients, we would look for ways to help them reduce the amount of increase.

Clients that are already utilizing our comail and dropship capabilities will see decreases in postage. Because we don't have software available to do fully accurate analysis of the proposed rate structure for each individual client, we can only estimate the numbers, but it appears as though it would be about 10-15%.

Overall, I would expect that we would see a decrease in total postage of about 2-5% (based on the same mail volume used to estimate the \$2 billion mentioned). That estimate is based on what we are already doing for our clients, and for what we additionally intend to do for clients given the right incentives reflected in the proposed rate structure. I would also expect that because of efficiencies and cost savings for our clients and Quad, we would see an increase in mail volume as the savings are reinvested back into businesses.

Response of Witness Schick to USPS/TW et al.-T4-3

USPS/TW et al.-T4-3. On page 2, lines 8-9 of your testimony, you mention the contracts you form with your clients today. Please describe the terms of the contracts which Quad/Graphics, Inc. enters into with its customers. Specifically, address how postage is paid. Are the customers of Quad/Graphics, Inc., assessed postage as a line item on their bills, do they pay some fixed negotiated price that is established before the postage is determined on a given mailing, or is some other process used? If some other process is used for postage payment, please describe it.

RESPONSE

Terms of contracts between Quad and our clients are confidential. Postage is paid by our clients, either by check to the local Postmaster, or through a CAPS or Centralized Postage Payment account. Postage is not included on invoices to clients.

Response of Witness Schick to USPS/TW et al.-T4-4

USPS/TW et al.-T4-4. On page 3, lines 19-25 of your testimony you describe how In-Style magazine altered its presort parameters in a way that reduced the number of sacks from 4,059 to 1,418. Aside from reducing postage, did this change also result in an internal operations savings for the company that prepared this mail? If so, please describe the changes that were made and the savings that were realized.

RESPONSE

There were internal operations savings. We were able to reduce the number of people needed on our binding line, improve efficiencies in material handling, and reduce the amount of warehouse space needed to stage the finished product. And because of the reduction in sacks, we had less empty equipment in our warehouse, opening up space for our other products. In addition, more palletized mail helped to expedite the loading of trailers and reduced manpower needs in distribution.

Response of Witness Schick to USPS/TW et al.-T4-5

USPS/TW et al.-T4-5. In your autobiographical sketch you describe 20 years of experience working in the post press production process, as well as your involvement with MTAC. Based on this experience, would you say that the average unit cost incurred by a small printing and distribution company (the nonpostage cost incurred during the manufacture/preparation of Periodicals mailings prior to the time that they are submitted to the Postal Service) is higher, lower, or about the same as the average unit cost incurred by a large printing and distribution company? Please explain the basis for your response.

RESPONSE

I am not able to provide this information.

Response of Witness Schick to USPS/TW et al.-T4-6

USPS/TW et al.-T4-6. On page 4, lines 1-2 of your testimony, you state, "[t]he change from sacks to pallets also created less cost and more efficient production for Quad." (a) Just to be clear, is it your testimony that the use of pallets results in internal, non-postage benefits/cost savings to Quad? If so, please describe those benefits/cost savings. b) Was there some point in time when Quad made the decision to rely on pallets for its internal operations? If so, please describe when that change was made, why that change was made, and the system that existed before that change was made.

RESPONSE

- a) Just as with processing and distribution within the Postal Service, we gain efficiencies throughout our processes when we can utilize palletization instead of sacks. Pallets help to reduce labor, material handling, warehousing, and transportation costs. Sacked mail is also where the majority of preparation errors occur, which result in postage assessments or rework costs.
- b) Product within our production facilities has always been handled and moved on pallets. We began to utilize pallets for packages of mail in 1981 or 1982, when the first provision for palletized mail was written into the postal regulations. Prior to that time, all packages of mail were placed in sacks, the sacks were thrown onto our own pallets, and then dumped from the pallets into trailers creating a bedload of sacks.

Response of Witness Schick to USPS/TW et al.-T4-7

USPS/TW et al.-T4-7. On page 4, lines 10-13 of your testimony, you state, "[o]pportunities are restricted because the costs of increased investment in technologies, such as comailing, copalletization, and investing in new technologies and processes outweigh the return that we could get from the reduction in postage costs." On page 10-12 you also discuss in general terms how the industry would respond to the price incentives proposed by witness Mitchell, and use past examples to support your claim. (a) What specific technology investments, if any, can you foresee Quad/Graphics, Inc. making were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? (b) What specific operational changes, if any, can you foresee Quad/Graphics, Inc. making were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? (c) Docket No. R2001-1 resulted in two new pallet discounts. Please describe all technological investments and operational changes Quad/Graphics, Inc. made in response to these pallet discounts, and specify the time period in which they were made.

RESPONSE

- a) See response to ABM/TW et al. – T4-65 (b)
- b) See response to ABM/TW et al. – T4-65 (b)
- c) Because the discounts offered were not sufficient enough to develop a copalletization process, we focused on our comailing operation as a way to utilize the discounts. Our investment was therefore limited to modification of our comail software to meet the postal requirements for documentation. Modification of software and certification of our process and documentation by the Postal Service was about a 6-month process from the time the discounts became available. No operational changes were made, as copalletization is a function and byproduct of comailing.

Response of Witness Schick to USPS/TW et al.-T4-8

USPS/TW et al.-T4-8. (a) Please describe the various materials that Periodicals mailers used to secure bundles. (b) Are there any differences when it comes to the materials used by a large mailer to secure bundles and the materials used by a small mailer to secure bundles? If so, what are those differences and why do they exist?

RESPONSE

- a) I can only describe the materials that are used at Quad/Graphics. We use a combination of shrinkwrap material and plastic strapping. All packages are shrinkwrapped. We then use a selective strapping process to determine whether we need to add one or two straps. That is dependent on the height of the packages, as well as the weight of the publications and the number of bind-in or blow-in cards. For publications that are individually polywrapped, we only use two straps. Shrinkwrapping over polywrap does not work.
- b) I am not able to provide that information.

Response of Witness Schick to USPS/TW et al.-T4-9

USPS/TW et al.-T4-9. On page 7, lines 1-3 of your testimony, you state “[t]oday, we have more than 120 different publications participating in our comailing program. The list size of those publications can vary from a main run of 500,000 copies to supplementals or back issues of 1,500 copies.” Please provide the following information regarding these 120 publications mentioned in your testimony. a) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 75,000 or less? b) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 50,000 or less? c) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 25,000 or less? d) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 10,000 or less? e) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 5,000 or less? f) For each publication, please provide the proportion of content that is advertising, for a specified recent time period of your choice? g) For each publication, please provide the copy weight for the time period that was chosen for the advertising content in part (f) above.

RESPONSE

Using our most recent information, the actual number of publications that participated in comailing pools was 105.

- a) 23.
- b) 17.
- c) 6.
- d) 4.
- e) 1.
- f) The information is contained in the attached spreadsheet.
- g) The information is contained in the attached spreadsheet.

Attachment to Response of Witness Schick to USPS/TW et al.-T4-9

Title Code	Copies	Piece Weight	Ad %
Title 1	2914279	1.1117	46.5
Title 2	2334764	0.7673	52.3
Title 3	2156082	0.5183	29.12
Title 4	1881168	0.4438	50.79
Title 5	1765872	0.359	55.04
Title 6	1742304	0.6407	59
Title 7	1557030	0.67	50.23
Title 8	1516060	0.5102	44.53
Title 9	1380134	0.569	49.29
Title 10	1367099	0.497	44
Title 11	1353674	0.6353	49.83
Title 12	1267931	0.8493	50.51
Title 13	1236663	0.2363	26.03
Title 14	1164428	0.9668	48.84
Title 15	953742	0.3295	40.95
Title 16	864582	1.055	58.72
Title 17	813328	0.34	43.18
Title 18	706544	0.352	38.32
Title 19	692497	0.617	59.17
Title 20	692079	0.611	42.9
Title 21	687964	0.6308	45.88
Title 22	687685	1.5275	38.62
Title 23	672988	0.5627	46
Title 24	667192	0.284	0
Title 25	629686	0.5833	56.28
Title 26	605933	0.359	23.15
Title 27	591314	0.1544	0
Title 28	576445	0.2508	45.54
Title 29	571045	0.6517	51
Title 30	560041	0.2163	0
Title 31	558170	0.8587	56.88
Title 32	552698	1.038	47
Title 33	444936	0.6203	53.6
Title 34	440076	0.63	37.8
Title 35	427191	0.502	41.92
Title 36	419768	0.329	40.62
Title 37	410558	0.4298	34.22
Title 38	407539	0.4963	35.9
Title 39	397283	0.4347	44.3
Title 40	395862	0.6537	56.28
Title 41	358361	0.289	41.36
Title 42	315778	0.9473	66.09
Title 43	313657	0.508	40.6
Title 44	308747	1.0223	30
Title 45	302363	0.2207	35.01
Title 46	300487	0.4783	27.23
Title 47	300002	0.138	10
Title 48	297564	0.3423	34
Title 49	276428	0.5286	42.82
Title 50	273125	0.546	43.1
Title 51	247265	0.4295	37.9
Title 52	231959	0.4473	51
Title 53	228657	0.6703	50
Title 54	217216	0.441	31.83

Attachment to Response of Witness Schick to USPS/TW et al.-T4-9

Title Code	Copies	Piece Weight	Ad %
Title 55	204997	0.38	51.84
Title 56	197854	0.3923	11.97
Title 57	193226	0.3813	28.95
Title 58	189692	0.3923	18.9
Title 59	187721	0.655	33.96
Title 60	185133	0.798	46.84
Title 61	151022	0.496	39.47
Title 62	147120	0.585	14.18
Title 63	131013	0.5264	35
Title 64	130853	0.4617	42.33
Title 65	127703	0.635	31
Title 66	121621	0.305	31.08
Title 67	116852	0.5857	39.13
Title 68	116060	0.521	50.59
Title 69	110479	0.629	53.27
Title 70	109161	0.3807	13.44
Title 71	108256	0.608	18.11
Title 72	107830	0.4417	40
Title 73	101899	0.276	10.7
Title 74	100191	0.4577	36.46
Title 75	90298	0.5213	33
Title 76	88788	0.389	51.51
Title 77	87647	0.2994	33
Title 78	84409	0.2907	47
Title 79	83427	0.5903	45
Title 80	81145	0.4477	14.78
Title 81	77411	0.8287	60.89
Title 82	77107	0.461	20.28
Title 83	72493	0.4167	52.99
Title 84	72283	0.45	50
Title 85	63916	1.2137	50.76
Title 86	59188	0.312	37.3
Title 87	55091	0.7893	52.1
Title 88	54863	0.3223	23
Title 89	49153	0.3225	22.97
Title 90	46078	0.6083	27.8
Title 91	46066	0.2913	20
Title 92	44655	0.489	53.36
Title 93	43400	0.3837	45.89
Title 94	42925	0.414	39
Title 95	36062	0.2997	32.9
Title 96	34069	0.331	28
Title 97	32922	0.4863	15.59
Title 98	27334	0.355	34.53
Title 99	26022	0.2373	40.88
Title 100	24833	0.63	34
Title 101	15431	0.31	29.41
Title 102	9084	0.575	18
Title 103	8382	1.115	41
Title 104	6607	0.35	18.27
Title 105	1638	0.585	34

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Schick?

3 MR. RUBIN: Yes, there is.

4 CHAIRMAN OMAS: Mr. Rubin.

5 MR. RUBIN: Mr. Schick, we're providing you
6 with two copies of your responses to Interrogatories
7 APWU-T-4-1 and OCA-T-4-1 and 2. Were these responses
8 prepared by you or under your supervision?

9 THE WITNESS: They were.

10 MR. RUBIN: And if you would answer orally
11 today, would your answers be the same?

12 THE WITNESS: They would.

13 MR. RUBIN: Then I move that these answers
14 be entered into the record in this proceeding.

15 CHAIRMAN OMAS: Without objection. Give two
16 copies to the reporter, and they will be admitted into
17 evidence, and they are to be transcribed.

18 (The document, previously
19 identified as Exhibit No. TW
20 et al.-T-1, was received in
21 evidence.)

22 //

23 //

24 //

25 //

Response of TW et al. Witness Schick to OCA/TW et al.-T4-2

OCA/TW-T4-2. In your opinion, would it be difficult for low-volume, nationwide, weekly publications to participate in a co-mailing or co-palletization program? Please explain your answer. As part of the explanation, please address the difficulty for such publications to achieve timely delivery.

RESPONSE

My response to OCA/TW-T4-1 is also applicable to weekly publications. However, because of the extra days in the schedule compared to a daily publication, there may be greater opportunities to take advantage, in some form, of comailing or copalletization. I am aware of weekly publications that do utilize copalletization today.

Response of TW et al. Witness Schick to OCA/TW et al.-T4-1

OCA/TW-T4-1. In your opinion, would it be difficult for low-volume, nationwide, daily publications to participate in a co-mailing or co-palletization program? Please explain your answer. As part of the explanation, please address the difficulty for such publications to achieve timely delivery.

RESPONSE

It would be difficult for national, low-volume, daily publications to utilize comailing and/or copalletization. The difficulty lies in the time-sensitivity of the publications. If an additional process is added to production, there will be more time needed for completion. If a decision was made to add comail or copalletization to the production process, but no time could be added to the schedule, there are 3 ways that could be considered to meet the challenge:

- 1) Add more equipment (cost)
- 2) Purchase faster equipment (cost) or improve current productivity (first and best choice)
- 3) Expedite distribution (cost)

That is not to say that there isn't a way to make this work. Cost analysis would have to determine if any of the three approaches mentioned above would be viable.

Some of the relevant considerations would be the following. Can you gain enough savings to offset the costs of additional or new equipment? Does that equipment provide other benefits that can be used in the ROI analysis? If productivity can be improved, is there enough newfound time to add more volume without missing dispatches and critical entry times? Is there an opportunity to get more expedited distribution services than are already being used? And at what cost?

Response of Time Warner et al Witness Schick to APWU/TW et al.-T4-1**Response of Witness Schick to APWU/TW et al.-T4-1****APWU/TW et al.-T4-1**

The autobiographical sketch you include as part of your testimony indicates that you have served on numerous Mailers Technical Advisory Committees and informal industry working groups, and were Chairman of MTAC. §3001.83 of the procedures for handling complaints, states that copies of all correspondence or written communications between the complainant or his/her representative and the Postal Service which relate to the subject matter of the complaint should be provided as part of the complaint documentation. Please provide all such documentation of which you are aware.

RESPONSE

I am neither a complainant nor a representative of any complainant. Nor am I aware of any written communications between the complainants and the Postal Service which relate to the subject matter of the complaint.

1 CHAIRMAN OMAS: This brings us to oral
2 cross-examination. Two parties have requested oral
3 cross-examination, American Business Media and McGraw
4 Hill. Mr. Straus, would you like to begin?

5 MR. STRAUS: I'm certainly willing to.

6 CROSS-EXAMINATION

7 BY MR. STRAUS:

8 Q A little bit of housekeeping first. We
9 recognize, Mr. Schick, that you do have a real job,
10 which is why we went so easy on you with the written
11 cross.

12 A Thank you.

13 Q Do you have with you -- I sent an e-mail to
14 your counsel yesterday, late afternoon or early
15 evening, asking that you have available to you Mr.
16 Stralberg's data responses. Do you have those with
17 you?

18 A I don't.

19 MR. BURZIO: I didn't receive that, David.
20 I'm sorry.

21 MR. STRAUS: Okay. It was probably around
22 six-thirty or something. We can work around it.

23 BY MR. STRAUS:

24 Q In response to ABM Interrogatory 3, you
25 answered "no" to a question about whether

1 implementation of the rates proposed by Mr. Mitchell
2 would harm a significant segment of the periodicals
3 industry. Would you agree that without a change in
4 mailing practices, a significant segment of the
5 periodicals industry will face substantial postal rate
6 increases?

7 A Yeah. I think that if some people continue
8 to prepare mail as they have, that there would be
9 potentially larger increases.

10 Q Is it your testimony that those large
11 increases will not harm the mailers or that they will
12 be able to change their mailing practices?

13 A I think that given the right incentives,
14 they would be able to, for the most part, change their
15 mail preparation.

16 Q How long will it take? Assuming that these
17 publishers who would otherwise be harmed are printed
18 at smaller printers that don't have co-mailing
19 capability today, if the rates were implemented on a
20 one-day notice, would that harm them?

21 A It would harm everybody. We all are in kind
22 of a position where we're held captive by the software
23 vendors today.

24 Q If the rates were implemented tomorrow, it
25 wouldn't hurt Time Warner, would it?

1 A Well, we would all have to be able to adjust
2 our software to make the changes needed to do what's
3 in the proposed rate structure.

4 Q Didn't Mr. Stralberg provide us information
5 about the rates that would be paid under the proposed
6 rates by the Complainants' periodicals if they did not
7 change the way they prepare their mail?

8 A Yeah, but I'm not real familiar with that
9 software, but my understanding is it's just a modeling
10 software that can be used today to kind of look at if
11 you're doing things today versus what you might do
12 tomorrow. That has nothing to do with presort
13 software that's necessary to drive the system to
14 create the mailing list to change the preparation to
15 meet those different changes in the rate structure.

16 Q I don't think we're communicating. We asked
17 Mr. Stralberg to provide us with the postage that
18 would be paid by the Complainants' periodicals without
19 any change in their mail preparation under the rates
20 proposed, and we got answers that showed 2.37 cents
21 reduction for Time, Inc., Time magazine, which based
22 upon their main file mail circulation, would save them
23 nearly \$5 million. What would they have to change to
24 save those \$5 million?

25 A Well, in some cases, you're right. You

1 wouldn't change anything.

2 CHAIRMAN OMAS: Excuse me. May I interrupt?
3 Mr. Schick, would you please place the mike closer to
4 you? A little bit closer, I think.

5 THE WITNESS: I think that in some cases,
6 you're correct. You may not have to change any mail
7 preparation in order to do some of the things that are
8 in the proposal.

9 BY MR. STRAUS:

10 Q But you don't have to do anything. The
11 proposal doesn't require anybody to do anything, does
12 it? It just charges rates.

13 A It does, but it forces you to make some
14 decisions, and there's decisions that would be built
15 into new software that would be decision-making
16 software that would allow you to change. I guess I'm
17 assuming that within the rate structure there's going
18 to be different preparation changes required by the
19 Postal Service and that because of those different
20 preparation changes, we have to go through the process
21 of software changing in presort.

22 Q What in the proposed rates requires any
23 preparation changes?

24 A Well, I guess, from a preparation change,
25 maybe nothing, but from a reporting and documentation

1 point of view, you always have changes when there's
2 any changes made to rates and/or discounts. In this
3 case, it's not discounts; it's the preparations
4 required. You have to be able to produce some kind of
5 documentation that would show the number of packages
6 you're creating, the levels those packages are at.
7 That information would be much more valuable today and
8 would have to be much more accurate under that
9 scenario than it is today because today, in a lot of
10 cases, that doesn't really determine the actual
11 postage.

12 So it may not be the presort software part
13 of it in some instances, but it may be the
14 documentation part of it. In a lot of cases, that
15 causes as much problems in getting ready to go as does
16 the presort part of it.

17 Q Is that what Mr. Stralberg called "high
18 school math" yesterday, counting the number of pallets
19 and sacks and bundles?

20 A That could be what he was referring to, but
21 you would have to ask him.

22 Q To be clear, though, if these rates were
23 implemented, and assuming you could tell the Postal
24 Service what the billing determinants are, Mr.
25 Stralberg said that the rate for TV Guide, for

1 example, the per-piece cost for TV Guide, would
2 decline from 16.54 cents to 12.39 cents. He also told
3 us that the main file volume is about 6.285 million
4 pieces, which produces an annual postage savings of 13
5 and a half million dollars. That's about the they
6 changed any preparation. If they were to change their
7 preparation to take advantage of the rates, they would
8 save even more, presumably.

9 Q If you're in that situation where you're not
10 changing anything, and by not changing anything, the
11 rates just give you savings, yes, you would be able to
12 get the savings if you could document what you've done
13 to meet those changes. I'll use the example, David,
14 in the co-pal case. In the last co-pal case, it was
15 not so much an issue of having to change any software
16 or do anything different in a lot of cases; it was the
17 documentation that you had to produce in order to
18 prove what you were doing that created the length of
19 time that it took for all of us to be able to claim
20 some of those discounts.

21 Q So if it took, say, 90 days to work out a
22 way to count bundles and count pallets and count sacks
23 and tell what those levels are, presumably the Postal
24 Service wouldn't implement rates until people could
25 tell them what the billing determinants are; there

1 would be no way to know what to charge.

2 A Correct.

3 Q But now let's talk not about Time and TV
4 Guide that would save money with no change in
5 preparation under these rates. Let's talk about those
6 periodicals that would suffer double-digit, postage
7 cost increases without any change. Your testimony and
8 the testimony of the Complainants is that at least
9 most of these people will be able to change to some
10 degree and offset some or all of this increase. My
11 question to you here is how much time it takes to do
12 that, and you said, in your answer to our Question 3,
13 that if the change were to be made in less than two
14 years' notice, that wouldn't harm somebody. And I'm
15 trying to see, if it were made on 90 days' notice,
16 would a publisher facing, say, a 30 or 40 percent
17 increase in postage rates at a printer without co-
18 mailing and co-palletizing capability be able to make
19 those changes in time to avoid that kind of increase?

20 A I think I would answer it this way, that it
21 would really be hard to nail down a specific amount of
22 time. And a for-instance would be let's say that a
23 particular printer had a four-pocket Sitma wrapper on
24 their floor today that they use for polybagging, but
25 it also had selective inserting capabilities. That

1 machine is ready to co-mail tomorrow, so that part of
2 it is taken care of.

3 Now, if you go back to what they would have
4 to change in their list preparation, a lot of list
5 services can already provide services that do co-mail-
6 type presort, and really any presort system can do
7 that, so it's really the determinant would end up
8 being how long it would take that particular publisher
9 to make a decision to change the way they are
10 preparing their mail list, and if that involved some
11 issues in production, obviously, then that's a little
12 bit more of a decision, but it could be very quickly.
13 I mean, in number of days, 90 days is probably a lot
14 of time, given what I just set up as a scenario.

15 Q How many pockets are on your co-mailers?

16 A We have 24 pockets on ours.

17 Q Would you co-mail with a 4-pocket co-mailer?

18 A We actually are co-mailing -- I'll kind of
19 go back and quantify. We have 24 pockets on our main
20 co-mailing operation, but we have other co-mailing
21 operations set up in other plants that are using six-
22 and eight-pocket Sitma wrappers as co-mailers, and
23 we're co-mailing on those.

24 Q What are you doing your wrapping with if
25 you're using your wrapper to do co-mailing?

1 A Well, that's why you have schedules. You
2 schedule other jobs around that, or you get another
3 machine to just do co-mailing if you have enough
4 volume. But I guess I'm assuming that if you're just
5 starting up, you would schedule it just like you would
6 schedule any other wrapping job.

7 Q Please look at your response to ABM Question
8 6.

9 A Okay.

10 Q There, you're being asked about a question
11 that was discussed with Mr. Stralberg yesterday about
12 whether the contents of a five-digit sack would get
13 delivered more quickly than the contents of a three-
14 digit sack. You say you know of not studies that show
15 a difference in delivery times. Do you know of any
16 studies that show that there is not a difference in
17 delivery times?

18 A I don't.

19 Q There is a study going on imminently, isn't
20 there?

21 A Yeah. I think it was hoped to have started
22 by this time, but now it probably won't start for
23 another few weeks.

24 Q Do you know how long that will take?

25 A I really don't. It's not really much of a

1 schedule test. It's kind of a minor thing, just to
2 get some general information then possibly build off
3 of that.

4 Q Do any Quad customers believe that there is
5 a delivery time difference between five-digit sacks
6 and three-digit sacks?

7 A Yes.

8 Q And so they ask you to prepare the mail in
9 five-digit sacks.

10 A In a few cases, yes.

11 Q And your answer to ABM Question 7,
12 specifically D -- we asked you to describe the way the
13 Postal Service deals with bundles delivered on an ADC
14 pallet. In response to Part D, you say they are
15 sorted into rolling stock. Why doesn't the Postal
16 Service palletize those bundles? Do you know?

17 A I have no idea.

18 Q Do you think they should?

19 A Well, I guess that would depend on what
20 works best for their internal process. In our
21 internal process, we use pallets for basically
22 everything, with the exception of when we have to move
23 sacks, and then we've invested in some containers to
24 move sacks internally. But generally speaking,
25 pallets would work fine, but I'm not sure if that's

1 the right thing for the Postal Service. You would
2 have to ask them, I guess.

3 Q These bundles that get sorted off of the ADC
4 pallets then get transported in trucks to, presumably,
5 to SCF. Right?

6 A Correct.

7 Q And so the Postal Service transports those
8 bundles in rolling stock.

9 A Yes.

10 Q When that rolling stock gets to the SCF,
11 what happens to the stock itself, not the bundles but
12 the equipment?

13 A The rolling stock?

14 Q Yes.

15 A I guess it's just used within that
16 particular facility once the packages are taken out,
17 and then it's either used to transport back to another
18 facility or just used internally in that particular
19 plant.

20 Q Is any of it sent back to the ADC?

21 A I would assume that some if probably is, but
22 I'm not really sure how they move that internal
23 product, internal containers, I should say.

24 Q Is there a number you can give me for the
25 number of five-digit zip codes that are typically

1 served by an ADC?

2 A I don't know what that would be.

3 Q Please look at your response to ABM 8.

4 A Okay.

5 Q In the second sentence, you say that
6 depending on the print location and the total copy
7 count, the mail will either be transported by truck or
8 air. Can you expand on that a little bit and tell me
9 how, first, location affects the decision between
10 truck and air and, second, how copy count affects that
11 decision?

12 A Well, first, I would say that usually the
13 decision to use air is not our decision; it would be
14 the customer's decision. We usually try to dissuade
15 customers as much as possible to use air if we think
16 we can meet the critical-entry time by using team
17 drivers and going over the road with trucks.
18 Obviously, the cost is much less than it would be with
19 using air.

20 Generally, the location of the plant, if I
21 use our Wisconsin locations, if we have two days
22 basically to get to the West Coast to hit an entry
23 point time or critical entry, we'll probably look at
24 that as over-the-road, team drivers because we can
25 pretty much get there within two days, probably a day

1 and a half, and a lot of clients will allow us to do
2 that as long as we continue to meet their critical
3 entry times. If you start getting anymore than that
4 away, you're probably not going to meet those times,
5 and you have to resort to air.

6 The volumes really are not too dependent on
7 whether you use air or truck. The volumes probably
8 dictate whether you maybe print in another location
9 closer to that destination if you have enough copies
10 that are going there. So you would print there as
11 opposed to having to distribute that far.

12 Q By print in another location, you're not
13 suggesting printing in two different plants, are you?

14 A Possibly, depending on the volume and
15 depending on the distribution of product.

16 Q Do you know of any publications with
17 circulation under a million that print in more than
18 one plant?

19 A Off the top of my head, I don't, but that's
20 not to say there isn't. I guess I would add that that
21 situation is one of those situations that today we are
22 all looking at with not just weekly titles; we're
23 looking at it with monthly titles because the
24 economies of scale are starting to get to the point
25 where it might make sense to produce a monthly

1 publication with X number of copies in different
2 locations in order to reduce the whole production time
3 from start to delivery.

4 Q Under the rates that are proposed here, that
5 would reduce the incentive to print at multiple
6 plants, wouldn't it?

7 A Under the rate structure proposed?

8 Q The rates proposed, yes. Let me be more
9 specific. At the moment, one of your complaints is
10 that you don't credited with all of the savings from
11 drop shipping. If you got additional drop-ship
12 savings, that would tend to discourage multiple
13 printing plants, wouldn't it?

14 A No, not necessarily. I've also said in my
15 testimony that we have two challenges as a printer,
16 and that is to reduce costs in postage for our
17 customers, but we also have to get in home quicker and
18 reduce the production cycle, and by printing in more
19 locations, the assumption would be that you would be
20 closer to destination, you wouldn't have much time
21 from plant to facility, and you would be able to
22 shorten the production time.

23 So I think that given the better incentives,
24 those are some of the things that it opens the door
25 for us to be able to do which help us to make a lot

1 more internal decisions to manage our business better.

2 Q Let me give you that old, cross-examination
3 bugaboo, "all other things being equal." All other
4 things being equal, isn't there more incentive to
5 print at multiple printing plants today than there
6 would be if the drop-ship discounts were greater, if
7 that was the only variable?

8 A I can't say that. I don't think so. I
9 don't agree with that.

10 Q Your use of team drivers and combining
11 weeklies with other drop-ship mail, which is your
12 means for trying to get the maximum use of over-the-
13 road truck transportation; would a much smaller
14 printer have trouble using team drivers and combining
15 weeklies with other drop-ship mail?

16 A It really depends on what their volume is
17 for that particular time and date, I think. I mean,
18 the pooling of mail for drop shipment has been a
19 concept that we've used since we were a one-plant
20 printer. So, you know, it isn't something that just
21 became feasible for us because we became a big
22 printer. The economies of scale may not be as great
23 as they are, given the volumes that we have today, but
24 the opportunity still probably presents itself, and
25 that only happens when the opportunity is there and

1 the timing works out that we can combine weeklies with
2 our other pool mail, our standard mail.

3 Q Some of your customers do request air
4 transportation. Is that right?

5 A Yes.

6 Q And they do that at substantially greater
7 cost because they think that's the only way they can
8 get their in-home delivery. Is that right?

9 A Correct.

10 Q And that mail must be in sacks. Is that
11 right?

12 A Yeah. My understanding is, if it's not in
13 sacks, if you put it on a pallet, it gets broken down,
14 and the packages get thrown in the air container, and
15 somebody has to take them off and then put them back
16 on at destination.

17 Q But it clearly has -- it can't be entered
18 into the Postal Service on pallets unless somebody
19 builds the pallet at the destination.

20 A Correct.

21 Q So as a practical matter, any publisher that
22 feels that it must put its mail on an airplane to get
23 the delivery that it needs is unable to use pallets.

24 A Not necessarily. We have a weekly client
25 who uses air but co-palletizes to put mail on pallets

1 even though it goes by air.

2 Q I thought you just said it can't go by air
3 on pallets.

4 A Well, they are putting it on pallets in our
5 plant until it gets to the -- for the air mail
6 carrier, and then they are breaking it down, and my
7 assumption is they are building it back up at the
8 other end. You mentioned that, that if you have
9 someone who will take the pallet apart to put it in
10 the container and then put the packages back on the
11 pallet at destination, you still have a pallet; it
12 just wasn't a pallet when it was on the airplane.

13 Q But you don't know. You just said you
14 assume they are building a pallet at the other end.
15 You don't know that.

16 A Correct.

17 Q In response to our Question No. 10, you were
18 kind enough to provide copies of the MTAC reports on
19 alternative containers. If you look at page 2 of 3 of
20 Attachment A, --

21 A Okay.

22 Q -- which is the issue titled "Preparing
23 Flats Using Alternate Packaging," there is a
24 resolution there on page 2 with some recommendations,
25 including creation of -- work group and the Postal

1 Service publishing a detailed report. Whatever
2 happened to that?

3 A Well, if you look at the resolutions,
4 Resolution No. 1, "Create the five-digit auto
5 schemes," that happened. "Develop a new method of
6 preparing flats using a new container"; that work
7 group was in place, which is the next one that we have
8 attached, and we did a lot of testing in a lot of
9 different ways of containerizing mail, and we ended up
10 with kind of a resolution there that nothing at this
11 time worked because of the presort parameters and the
12 difficulty in trying to get enough mail in a grouping
13 to create a smaller type container.

14 Three would be "develop a container that
15 replaces the number of currently prepared packages to
16 reduce the number." That's kind of put on hold until
17 something might change in presort, as well as number
18 four, which was "look at a different presort to fit
19 the new containers."

20 So other than number one, really nothing has
21 happened that you can grab onto.

22 Q Please look at page 3 of 4 of Attachment B.

23 A Okay.

24 Q And I'm focusing your attention on -- I
25 guess it's the second full paragraph that begins "the

1 majority." Do you see that?

2 A Yes.

3 Q There, you say that "the majority of flats
4 coming off of the mailer's bindery line are prepared
5 for manual delivery, such as newsstands, newspapers,
6 and USPS carrier-route bundles." Could you please
7 explain what that means? I don't understand why USPS
8 carrier-route bundles are manual delivery but no other
9 bundles are manual delivery.

10 A Well, let me first say that this is kind of
11 the editing by the Postal Service for the report
12 itself. I don't necessarily agree with the wording of
13 everything. My understanding of that is that they
14 consider prepared for manual delivery, I guess,
15 because they are assuming that it doesn't go any kind
16 of automated processing, just as our newsstand product
17 doesn't and, in a lot of cases, newspapers don't
18 either. Like I said, I don't necessarily agree with
19 that statement, but that's the way it was written.

20 Q Okay. Now, look at the last sentence of
21 that same paragraph: "The wholesale changes required
22 on the printers/publishers end to make up logs, trays,
23 etc., could compromise the cost effectiveness of the
24 current operation." Do you understand this to mean
25 that even though the creation of logs and trays could

1 more efficiently handle some of the mail, it could
2 lead to less-efficient handling of the rest of the
3 mail that's now perfectly comfortable on pallets?

4 A I think what we were referring to here was,
5 from a printer perspective, just the changes in how we
6 would have to prepare what would be considered then a
7 package, whether it was a log, tub, or tray, and the
8 changes needed with our equipment. Without any
9 incentives, it just didn't make sense for us to make
10 that wholesale change. So I'm not sure that really
11 was kind of pointed at the process through the Postal
12 Service in this instance.

13 Q Please look at your response to Question 11.

14 A Okay.

15 Q In Part A, here we're discussing the changes
16 made to In Style magazine to cut the number of sacks.
17 You say the sack minimums are set to 24 pieces. What
18 had they been set at?

19 A They were set at six.

20 Q And why was it that this change hadn't been
21 made sooner?

22 A Well, as I hate to admit, we do make some
23 mistakes, and when this job was originally estimated,
24 one of the estimators took a look at it and looked at
25 the volume that we had, and we just assumed that

1 things were going to be on pallets, and they weren't.
2 So when we got the job in the plant, we ended up with
3 a lot of mail bags and pricing that really didn't go
4 along with that. So we talked to Time and said, we
5 need you to make some changes, or we're going to have
6 to look at the pricing and make some changes because
7 the cost was very prohibitive, and that was really
8 what initiated the change.

9 Q The MAD sack minimum was set to one. That
10 would be one piece?

11 A I believe that was the case.

12 Q What had it been?

13 A That, I don't know, David.

14 Q What's the alternative, I guess, to setting
15 an MADC sack minimum to one? If you only have two
16 pieces -- how do I ask this? Let me just go on.

17 According to your response to Question 12,
18 In Style weighs 1.676 pounds, at least the issue you
19 looked at. According to Mr. Stralberg's data, it
20 weighs about two pounds, and I understand weight
21 changes from issue to issue.

22 A Version to version.

23 Q At either weight, would you say that In
24 Style is typical for the weight of a periodical, or is
25 it significantly heavier than the typical periodical?

1 A I can only kind of answer that from our
2 perspective, and for us, that's pretty heavy. We have
3 very few publications that are over a pound, a pound
4 and a half.

5 Q That's true throughout the industry, isn't
6 it, as a percentage?

7 A I'm not sure.

8 Q Please look at your response to ABM Question
9 12(d).

10 A Okay.

11 Q The question was why you didn't drop ship
12 the sacks, and the answer is that you don't drop ship
13 sacked mail unless the client has specific needs. Is
14 the answer there that the client in this case did not
15 ask you to drop ship the sacks?

16 A Correct.

17 Q Perhaps Question 14 was unartful and,
18 therefore, didn't get the kind of information we were
19 looking for, so let me try it a little different way.

20 The question was, "Do the participants in
21 the individual pools," meaning the co-mailing pools,
22 "vary from month to month or week to week?" And your
23 answer is that "they can vary from week to week, group
24 of individual schedules and frequency."

25 First of all, weeklies are not typically co-

1 mailed, so we're talking about mostly monthlies.

2 A Monthlies, bimonthlies, quarterlies.

3 Q So if you have a pool for monthlies that
4 you, say, co-mail the first week of the month, the
5 first week of the next month, will the same
6 periodicals be co-mailed in the same pool?

7 A Not necessarily. It really is dependent on
8 their schedules. Now, for the most part, you would
9 think that most of those publications would, again, be
10 in that same co-mailing pool because they are
11 scheduled to produce within that time frame, but some
12 may vary by a few days, may fall in the week before or
13 the week after, and then plus you'll have some of
14 those other titles that are quarterlies that hit
15 whichever month and whichever week within that month.
16 You may have titles that print 10 times a year. You
17 may have titles that print six or eight times a year
18 that kind of fall in there, too. Whenever their
19 schedule hits, that's when they are
20 scheduled to be in the co-mailing pool.

21 Q One of your examples there was if there
22 schedule is different in Month 2 than in Month 1. At
23 what point do they enter into a scheduling agreement
24 with you? Elsewhere you testified that if somebody
25 says they are going to participate in a pool and then

1 doesn't show up, that there is a significant financial
2 penalty for having to reprogram everything.

3 A Right.

4 Q So let's say we're in Month 1, and you have
5 20 publications being pooled in that pool. When do
6 you develop a schedule for the first week of the
7 second month?

8 A Well, the schedule for each client is
9 developed when you sell that job, or if it's a client
10 that you've already had, and you're just going into a
11 new year, you put schedules out for the whole year
12 based on the print, bind, and mailing schedules. So
13 they are pretty much plugged into a co-mail pool at
14 that time based on when they are scheduled to finish
15 in finishing and when they are scheduled to be in the
16 mail.

17 So that's pretty well set, but, again, you
18 could have some variance of the schedule after it's
19 set. You could have variance in the main run of a
20 book because maybe one time they do co-mail because
21 they are maybe using a number of different versions.
22 Maybe the next month they are not using a lot of
23 versions, so they might not be in the co-mail pool
24 that month. All of those different things can kind of
25 determine where they fall in and fall out.

1 Q How many periodicals are printed at Quad?

2 A I think the list we provided was 172.

3 Q And that was the list of all of the
4 periodicals you print.

5 A Yes. As far as I know, it was.

6 Q And of those, 108 co-mailed or main file.
7 Is that right? That's your response to Question 15.

8 A When we say "main file," it could be the
9 full main file, or it could be just parts of the main
10 file.

11 Q And those that do not, according to Question
12 No. 16, do not for three reasons: weekly
13 publications, publications that are already so heavily
14 palletized and sorted that they don't have any gain,
15 and those that need customized ink jet internal to the
16 publication. Can you give me some sort of a breakdown
17 as to how many of the 60 or so that do not participate
18 in co-mailing fall within those three categories?

19 A Let me add one more, as I think about it,
20 too. The other one would be if they fall out of the
21 dimensions, either postal dimensions for the flat
22 sorter, the AFSM-100, because that's primarily what we
23 have on the co-mailing pools, so the actual trim size
24 and different dimensions, or they fall out of the
25 dimensions that we have as specifications for our co-

1 mailer and there again there is some trim-size
2 variance, so they could not qualify because of that,
3 too.

4 Q Do some periodicals change trim size from
5 issue to issue?

6 A No. It's just that the variance in a trim
7 size -- let's say it's a tabloid. We can't put
8 tabloids into our co-mail pool today not because it's
9 a postal rule, not because our machine can't handle
10 it, but because when you package all of these
11 different publications together in a package and strap
12 them, if you had a tabloid in, and it was two or three
13 inches bigger than the rest of the publications, they
14 would just fold over and cause problems with that
15 book.

16 Q Why don't you just co-mail your tabloids
17 with your tabloids?

18 A If we had more incentives to create more
19 different kinds of co-mailing pools and start breaking
20 it out and segmenting our products, that's our
21 intention, to give everybody an opportunity to co-
22 mail. So at some point in time, that's what we would
23 love to be able to do.

24 Q But you would have to have enough tabloid
25 volume. Let me back up. If you only printed a

1 handful of small-circulation tabloids, you would
2 probably never be able to co-mail them.

3 A It would depend on their schedules. If they
4 all printed at the same time and could mail their
5 change of schedules, then, yeah, we would consider it.
6 If it was only one or two, maybe we wouldn't.

7 Going back to the original question, I would
8 say that we're kind of split between all of these,
9 really, and I can't really break it down by numbers or
10 percentages. I would just say it's pretty well spread
11 across all three of these and the fourth that I gave
12 you.

13 Q If a periodical is scheduled to be in a co-
14 mail pool the first week of the month, say, the first
15 week of August, and they come to you the middle of
16 July and say, "We've decided to use some kind of an
17 inside-the-book ink jet for that issue, so we don't
18 want to be in the pool that month," do they pay that
19 penalty you were speaking about for having to redo the
20 software?

21 A If we already had the list presorted
22 together, they would have a choice to make. They
23 would either have to pay for represorting the list
24 without them in, you know, and that's really their
25 choice, or they stay in the pool. Generally, you're

1 not going to see anybody make a decision that far out.

2 I would say that in the almost 20 years
3 we've been doing this, in the few times that we've had
4 someone decide they were going to pull out, it had
5 been due to not that type of a situation. It had been
6 due to something that was in the magazine that they
7 just didn't want to mail the magazine at that time
8 without making some changes, whether it was an or
9 whether it was edit, and that was the thing that
10 caused them to pull out of the pool.

11 Q You mentioned that the penalty would only
12 arise if somebody pulled out after the list had been
13 sorted. How far in advance of the initiation of the
14 process does that happen? How much of a window would
15 a publisher?

16 A Generally, the list is presorted together
17 very close to when we actually start production on the
18 co-mailer. Probably, I'm going to say, two days prior
19 would be pretty much the average. So they have quite
20 a bit of time to make that decision, although by that
21 time production on the binding lines has already taken
22 place for the most part, so now they might have to
23 make a decision where they didn't address the books
24 while they were binding them. Now they have to go
25 back and do something else to it. There is also a

1 production cost for them in that situation, and that
2 would be another reason they may choose not to do
3 that.

4 Q Please look at Question and Answer 17.

5 A Okay.

6 Q I'm still not sure I understand what you
7 mean by "we're co-mailing on a weekly basis." You co-
8 mail all the time. Right?

9 A Well, we try to schedule a co-mailing in a
10 one-week period so that you sort everything together
11 for that particular co-mailing, and you run that co-
12 mailing throughout that one week. So anything that
13 falls into that week is co-mailed within that run.
14 There is not set counts, minimum and maximum; it's
15 just whatever we have at that time, we do.

16 Q So the process of production and labeling
17 and bundling and getting out the door takes about a
18 week for each pool.

19 A Depending on the length of the run, how many
20 lines we run it across, it could take two to five
21 days, again, depending on the length of run and
22 whether we choose to run on more machines or not.

23 Q Do you schedule these pools -- if it takes
24 five days, do you start the next pool on Day 6, or do
25 you wait until the next week, so you're really doing

1 it 52 a year?

2 A Generally, you wait until the next scheduled
3 day, so it's 52 a year, and it's 52 a year plus
4 whatever we do in the other locations as well.

5 Q So your 10 a month, in response to number
6 18, includes -- was it Sussex where you do the one a
7 week?

8 A Actually, we have a couple of different ones
9 there and then some in our other plants as well.

10 Q What do you mean, a couple of different?

11 A Well, we have the regular co-mailing, we
12 have polybag co-mailing, and then we have co-mailing
13 in our other plants, and those equal up to the 10 a
14 month.

15 Q In Question 19, we asked you how many pools
16 per month include at least one participate co-mailing
17 at least 250,000 pieces, and you said eight. I assume
18 you mean eight out of the 10.

19 A Yes.

20 Q And the question about 100,000 pieces, you
21 said nine, so that would be, again, nine out of the
22 10.

23 A Correct.

24 Q So that leaves the tenth one. Could you
25 describe the tenth pool to me?

1 A The tenth pool is a pool that we've started
2 up in one of our outlying plants, and the totals, I
3 think, in one of my interrogatories reflected the fact
4 that the maximum number of pieces in those co-mailings
5 were about 130,000 copies. So it's a start-up, and it
6 enables that plant to do some things to help their
7 clients and to help them internally reduce the number
8 of sacks that they are producing and gain the
9 efficiencies in that plant, something to build on.

10 Q What was that 130,000 you just mentioned?

11 A It was the total number of copies in the co-
12 mailings, I think, was 130,000 or less. We have a
13 number of pools that I think I said in I'm not sure
14 which testimony --

15 Q Twenty-two. Maybe you want to look at 22.

16 A Yes. So it falls into C. You asked for the
17 smallest there. Those are the smallest, and the ones
18 in the middle are some of the ones that I'm talking
19 about, with 130,000 to 150,000 copies.

20 Q Here is where I'm having my problem. In the
21 response to 19 that we just went through, nine out of
22 the 10 pools that you run each month have at least one
23 participant co-mailing at least 100,000 copies, but in
24 response to 22(c), for example, you list five pools
25 with a total number of copies, if I'm reading your

1 answer right, of 32,000 or less.

2 A Yeah, but you're asking how many pieces are
3 in each year's smallest five pools. This is
4 throughout the year, so one a month is the smaller
5 one, but these are throughout the year.

6 Q Oh, okay.

7 A In this one, you're asking average --

8 Q I understand. Why don't we stick with
9 number 22 while we're there?

10 A Okay.

11 Q If we look at the pools in C, how many
12 different periodicals are participating in those?

13 A I'm not sure exactly. I think it's four to
14 six, is the number.

15 Q Is that main files?

16 A Predominantly supplementals.

17 Q What kind of containerization presort are
18 you able to get by co-mailing and coming out with a
19 total of, say, only 25,000 pieces?

20 A I don't have the exact numbers, but you're
21 able to move some mail from basic to three digit.
22 You're able to move some from three digit to five
23 digit. I would assume we're not creating very many
24 pallets, but we're reducing the number of sacks that
25 we create. So you're still improving on what you

1 have, and that's really the goal. Anything we can do
2 to improve the process and reduce the number of
3 containers that we're creating, whether it's pallets
4 or sacks, it's a good thing.

5 Q Can you tell me, without violating any
6 proprietary rules, whether these small co-mail pools
7 are profitable, or are they more of an experimental
8 nature?

9 A Let's just say they are experimental and
10 that we think there is enough cost justification to do
11 what we're doing.

12 Q Are the mailers saving any postage? Are
13 they saving on their combined postage and printing
14 costs?

15 A Let's just say they are not spending anymore
16 than they were before. Let me just add one thing,
17 too, if I can.

18 Q Go ahead.

19 A You know, we have something that shows us
20 that this is the right thing to do. I mean, we had a
21 little bit bigger numbers when we first started this
22 back in the mid-eighties as a company, and we just
23 know that you start small, and you get bigger, and
24 you're going to attract some volume, and things are
25 going to grow. So that's the same kind of approach

1 we've taken all along, and it just makes sense. At
2 least, for us, it makes sense at this point in time.

3 Q Please look at Question and Answer 21.

4 A Okay.

5 Q There, we asked you for the names of the
6 periodicals, of if you didn't want or felt you
7 couldn't do that, the names of the publishers of the
8 Titles 7 through 13 in your example, in your co-mail
9 summary.

10 A Right.

11 Q Your answer is, "Because of confidentiality,
12 we cannot provide the names of the publishers or the
13 publications." There was no objection to this
14 interrogatory filed. Did you ask the publishers
15 whether you could release their names or the names of
16 the titles?

17 A Yeah. Most of our customers do not want the
18 names of their publications listed, particularly in
19 any proceedings like this, for a whole lot of
20 different reasons, and then we don't really want to
21 provide those either for competitive reasons.

22 Q Is there any competitive harm to a company
23 for allowing to be made public the information that
24 their main file is co-mailed at Quad?

25 A There is a competitive issue for us.

1 Q People don't know who prints where in the
2 industry?

3 A They may know who prints where, but they
4 don't know how their production is being handled, and
5 that's the competitive nature of this. I don't want
6 anybody else know to know what part of a publisher's
7 circulation we co-mail or don't co-mail or how we
8 manage that process. That's actually the magic of how
9 you get the business.

10 Q Can you tell me at least how many publishers
11 are involved in Titles 7 through 13?

12 A I'm going to just guess and say that it's
13 between four and seven.

14 Q Are any of those Complainants in this case?

15 A That, I really don't know. I don't have the
16 list in front of me of who they are, so I can't even
17 tell you that.

18 Q So it's possible that you have refused to
19 provide information about the Complainants' own
20 titles.

21 A That's not the case. When we put this
22 together, I didn't want to see the titles.

23 Q So it's possible that some of these titles
24 are published by the Complainants.

25 A It's possible.

1 Q Please look at Question 23.

2 A Okay.

3 Q Here, we asked you about your statement
4 where you said a balance must be maintained for ECSI
5 value of periodicals, and in your answer you say that
6 a balance can best be achieved by recognizing X in a
7 way that treats all editorial matter equally. How
8 does treating all editorial matter equally aid the
9 balance that you find desirable?

10 A Well, I guess my point here was that I still
11 think that there is ECSI value to periodicals,
12 regardless of what you do, and that the rates proposal
13 that we're dealing with here in the complaint filing
14 still recognizes the ECSI value, and I don't see any
15 problem, and that there is a balance maintained.

16 Q When you say a balance between rates that
17 foster efficiency and rates that recognize ECSI value,
18 there is an implication there that those are
19 offsetting considerations, that rates that looked only
20 at efficiency wouldn't recognize ECSI value and that
21 rates that look at only ECSI value wouldn't recognize
22 efficiency, and you're trying to create -- like with a
23 see-saw, you want to recognize efficiency and ECSI in
24 some ratio that gives due weight to both. Is that a
25 fair characterization?

1 A I guess what I was trying to say here
2 really, David, and I didn't express it the way I
3 wanted to, was that, first of all, I have, from the
4 standpoint of the rates and reflecting ECSI, I can't
5 get into specifics because I'm not an expert on that.
6 What I'm talking about is that I'm just looking for a
7 rate structure that, however it's laid out, and I
8 think it is in this rate proposal, it still recognizes
9 that there is an ECSI value for periodicals. I'll
10 never go against that concept because I understand the
11 concept for the publishers, and that's not what I
12 would -- I wouldn't support anything that didn't
13 continue to maintain ECSI. I'm not good enough to
14 tell you how it pertains within the rate structure.
15 I'll leave that to someone else.

16 Q Do you think that ECSI value should be
17 recognized because it's important to promote a
18 healthy, vibrant, and diverse periodicals industry?

19 A I think that's a fair statement.

20 Q In Question 24(a), we asked you whether you
21 believe that cable television has substantially
22 diminished the value of print media for the
23 distribution of material with ECSI value. Let me
24 repeat. We asked you if cable TV has substantially
25 diminished the value. Your answer, I don't believe,

1 is responsive. You say that any technology has
2 effects on other technologies, but I don't find that
3 that answers the question of whether you believe cable
4 TV has substantially diminished the ECSI value of
5 print media.

6 A Well, my opinion on this is that, as I
7 stated, first of all, from a printer perspective, I
8 don't think there is any media that devalues any type
9 of printed product, and I don't think it devalues the
10 ECSI value of a publication. I think that if we're
11 talking about cable or any of the other media that you
12 talked about in any of the other questions, I think
13 what we're doing is we're adding a mix of where people
14 can get information, and people pick and choose where
15 they gather the information. I don't think it
16 devalues one over the other; I think they are all
17 valuable, and they maintain their viability.

18 Q So the same thing, then, would hold true for
19 Response 25. I don't mean to put words in your mouth,
20 but I'm still trying to understand what you're saying.
21 You're saying that the Internet, cable TV, those
22 things add to the information that's available, but
23 they don't diminish the value of print media.

24 A No. They are adding to print media. If you
25 look at a newsstand today, you'll find that cable TV

1 has generated a lot of magazines. You'll find,
2 obviously, computers have created a lot of magazines.
3 The Internet is creating a lot of magazines. So they
4 play off one another. So how it devalues when it
5 comes to ECSI value, I just don't see that happening.
6 I think it's just kind of a different sharing of
7 whatever that value is, and it depends on the end
8 consumer how they share that value.

9 Q And it's true, isn't it, that it's not only
10 Internet sites but also cable TV shows are produced by
11 publishers to supplement the information that's in the
12 print media.

13 A We print a lot of magazines, I think, that
14 are either based on cable channels or whatever, so
15 yeah.

16 Q I'm suggesting vice versa. For example,
17 Autoweek, which I believe you print, there is an
18 Autoweek TV show, isn't there?

19 A Yeah. There's a number of those.

20 Q And there is an Autoweek Web site.

21 A Yes.

22 Q And there are other periodicals that have
23 spun off certainly Web sites. You can't shake your
24 head on the record.

25 A Correct, correct.

1 Q And so they are able to share the expenses
2 of producing editorial content. It's not as if they
3 have to support an informational Web site on a
4 standalone basis.

5 A Well, the publication still has to be
6 standalone. It can't prop up one of those other
7 entities. It's got to be by itself by law. But it's
8 not different than what we see in the business of
9 catalogs as well where companies with Internet sites
10 produce a lot of catalogs, and they use the catalogs
11 to sell things on the Internet. They use the Internet
12 to draw people to catalogs. So the mixed media is
13 just something that's hear today, and it's going to
14 continue to grow, and it's a matter of how you provide
15 value to your customer, your end subscriber, in the
16 product that you're selling them.

17 Q In your response to number 29, you state
18 that there are adequate incentives today to provide
19 co-mailing services. Well, the proof is in the
20 pudding by the amount of co-mailing you do. Isn't
21 that right?

22 A We think so.

23 Q And you're providing value to your
24 customers, aren't you?

25 A We are.

1 Q Why isn't there a lot more co-mailing today
2 than there is?

3 A I wish I could answer that question. I
4 don't know. You know, I try to figure this out all
5 the time, but I really don't have an answer for that.

6 Q Now, we're going to talk about a couple of
7 your I-don't-know answers which I found a little bit
8 surprising, maybe not so surprising if you thought
9 that the questions involved specific numbers in the
10 answers. I didn't say "approximately."

11 Let's look at number 31, where we asked you,
12 "How many periodical printers in the United States
13 offer co-mailing services?" Before I get to the
14 question, let me point out that, in answer to Question
15 No. 29, you say you initiated co-mailing as a one-
16 plant printer because you thought it would help you
17 compete in an industry where you were the little guy.
18 I know you're good at your job, and I know that Quad
19 has been good at its job, and so you obviously must
20 have some information about what your competitors are
21 doing, or you wouldn't be as good at your job.

22 So let me re-ask Question No. 31,
23 "Approximately how many periodical printers in the
24 United States offer co-mailing?" and your answer was
25 "I don't know." Is that really the best you can do?

1 A No. I can tell you that there's three that
2 I'm aware of: Donnelley, Quebecor, and Fry
3 Communications. But I couldn't tell you out of the
4 other thousands of printers how many offer co-mailing
5 services, and that's why I answered the way I did.

6 Q Do you think it's more than half?

7 A I would say no.

8 Q I guess I'm more comfortable with the "I
9 don't know" to number 32. That was a tough one.

10 A Let me just answer, though, too, David, I
11 think maybe you're giving me a little bit more credit
12 than is due. I don't know that much about the
13 specificity of our competitors when it comes to this
14 stuff. I know kind of what I told you here, but I
15 couldn't tell you what they are doing or how they are
16 doing it.

17 Q Do some publishers come to your for printing
18 services from another company because you offer co-
19 mailing, and their old printer did not?

20 A Most definitely.

21 Q So co-mailing has been very, very good for
22 Quad Graphics.

23 A It's been pretty good, yes.

24 Q And number 33, we went into the same issue
25 with co-palletizing. Can you give me a little more

1 information there?

2 A Yeah. Again, I'm aware of Donnelley and
3 Quebecor and Publishers Press but only aware in
4 Publishers Press only because I've seen there
5 advertisements stating that they have got the
6 capability of handling a lot of small publications and
7 doing co-palletization.

8 Q I saw those ads, too.

9 In Question 35, we asked you a hypothetical
10 question about a customer with a three-year printing
11 contract that asks to be let out because another
12 printer will do it cheaper. Your answer was that some
13 of your contracts may provide for clean separations
14 without penalties. Would they provide for clean
15 separations if the only reason for the switch is lower
16 cost somewhere else?

17 A No. It depends on how that lower cost is
18 stated. Let me give you a for-instance. For
19 instance, if there was something written into a
20 contract that said, if there is technology available
21 to provide me a service that you can't, you know, you,
22 as a printer, have so much time to invest in that
23 technology and provide that service, or we can go
24 somewhere else, that would be a clean break. They
25 could just leave and go.

1 Q When customers have come to you -- I just
2 asked you before about customers that come to you for
3 printing, abandoning their prior printer because you
4 offer co-mailing. Do you know whether those customers
5 have waited for their contracts to expire or whether
6 they walked away from their contracts?

7 A No. I would say, the majority of the time
8 it's at the end of the contract, is when people make a
9 move and not in between, for the most part.

10 Q Do you have a number that you would offer as
11 sort of the typical duration for printing contract
12 with Quad?

13 A I really can't tell you that. First of all,
14 it's kind of all over the board. Secondarily, it's
15 confidential information, too, even if I give you an
16 average number. Let's just say it's different for
17 every client, and it can depend on the complexity of
18 the work, the amount of work, a whole number of
19 different things, and some of that is determined by
20 what the publisher would want as much as what we would
21 like to see.

22 Q Do you know, on an industry-wide basis, are
23 most printing contracts multiyear contracts?

24 A Yes.

25 Q Would a substantial number of those be for

1 five years or more?

2 A Let me just say that I would say, if we want
3 to pick some numbers, let's say three to five years
4 might be a good range to say as maybe the average
5 numbers.

6 Q Again, I don't want to probe into
7 confidential information here, but it just seems to me
8 that if a printer is going to want a three-to-five-
9 year contract, it's probably because there are some
10 start-up costs involved, and they want to make sure
11 someone doesn't come to them, print two editions, and
12 then walk out. Is that, in fact, the case? Are there
13 up-front costs of a new publication that would lead
14 you to want a significant term for a contract?

15 A There can be, but, again, as I mentioned,
16 there can be as many reasons for the publisher to want
17 that length of contract as there is for the printer.
18 A publisher, when they have to pull up stakes in one
19 place and move, depending on the amount of work it is
20 and the complexity, that's a big deal for them, too,
21 and they want to make sure that there is somewhere
22 where they can be confident that they have got some
23 time to see what they are going to get, make sure that
24 they are getting what they have in the contract.

25 So, again, it's both parties who really

1 determine the reasons why you want that length of
2 contract. And there is obviously a cost involved with
3 having to go out and renegotiate contracts, so you
4 don't want to have to do that every year, if possible.

5 CHAIRMAN OMAS: Mr. Straus, could you tell
6 me about how much longer you might be?

7 MR. STRAUS: I would say a half an hour.

8 CHAIRMAN OMAS: Okay. Fine. The reason why
9 I asked, Commissioner Goldway has a UPU meeting at the
10 Bolger Center. She apologizes for having to leave, so
11 if she walks out, she has got a definite meeting, and
12 she asked your indulgence.

13 MR. STRAUS: That's perfectly reasonable.
14 She has my indulgence, but she doesn't need it. I
15 just would have thought that she had heard enough.

16 (Laughter.)

17 (Discussion off the record.)

18 BY MR. STRAUS:

19 Q We asked you, Mr. Schick, in number 36
20 whether you characterize the investments in
21 technology, software to take advantage of the
22 incentives as major, and you said they may be
23 declining. A major expense can decline as well as a
24 minor expense, so can you do any better than that in
25 terms of whether this is a significant expense for a

1 printer that does not have the capability?

2 A Well, again, I would say, you know, a bad
3 answer would be it depends, but it really does depend.
4 The actual hardware is a major expense, depending on
5 what you want to purchase and/or have to purchase, and
6 I go back to the example I gave you with that four-
7 pocket Sitma. There's a lot of people that may have
8 the equipment sitting there that can already do the
9 job that's needed to get into, you know, co-mailing,
10 co-palletization, do the things that are needed to
11 reduce the costs here, and for those folks, the costs
12 would be pretty minimal as an entry.

13 If you have to go out and buy the equipment,
14 as I've stated in some of my other interrogatory
15 responses, there is some major cost that comes to
16 bear, but I would also that, depending on which
17 direction you go with the type of equipment that you
18 buy, there's other uses for that equipment, too. So
19 the ROI can be -- if you're buying a Sitma wrapper to
20 use as a co-mail, it's also a poly wrapper. It's also
21 an -- sorter. It does a lot of different things. So
22 you can use that to garner other business in other
23 ways in addition to using it for co-mailing.

24 Q That makes it even more incomprehensible, I
25 guess, why there isn't more co-mailing being done

1 today.

2 A I would agree.

3 Q The financial problems of the publishing
4 industry are pretty well known in terms of advertising
5 revenues and advertising pages. Is there any
6 equivalent type of well-known information about the
7 financial state of the printing industry?

8 A Well, let me just put it this way: When the
9 publishing industry suffers, the printing industry
10 kind of suffers right along with them. And one of the
11 reasons that we support the rate structure and moving
12 into a process where it would enable us to do more
13 things is because those are the types of things that
14 can help to add value for the customer, as we talked
15 about before, but that also let us get paid for doing
16 things that add value to the customer.

17 The ancillary services, the things that help
18 to reduce cost; that's really what's part of the
19 printing industry today. Base pricing for printing
20 has kind of taken a tumble in the last few years to
21 help our customers. So, you know, we're trying to
22 build that back up, and we think this is a good way of
23 doing it.

24 Q Please look at the response to number 44.

25 A Okay.

1 Q You say in Part A, and we discussed this
2 before, that your customers are required to commit to
3 a schedule. Is this a schedule for when they are
4 printed?

5 A It goes from all the way through prepress
6 right through the whole distribution process when the
7 magazine has to be delivered to the subscriber.

8 Q Well, that's not the schedule they are
9 agreeing to in terms of to participate in the co-mail.
10 They are not agreeing with you when the delivery time
11 is.

12 A No, but they have to agree to that whole
13 schedule because that's how we make it fit in. For
14 instance, if you've got a magazine that's got 96
15 pages, it just doesn't print all at one time on one
16 press. You're printing on multiple presses, so you
17 have to schedule the product coming off of multiple
18 presses to hit the binder at the same time. Then
19 you've got to schedule the binding in a way that you
20 get all of those titles to the co-mailer at the right
21 time, and then you schedule the list production so
22 that that happens to coincide with when the production
23 on the co-mailer takes place.

24 So that's all kind of built in, and that's
25 where the customer is committing to a schedule. Then

1 within that schedule is where we kind of fudge the
2 time a little bit and have some tolerances built in.

3 Q And that's what I was about to ask you.
4 When the publisher agrees to a schedule, is it a
5 particular hour of a particular day that they are
6 ready for prepress, or is it a day, or is it a week?
7 How finely tuned is that schedule?

8 A It's usually by the day, and then as it gets
9 closer, it's by time of day, and if you would ask the
10 folks from the publishing clients that come out for
11 press okays, they will tell you that it's a very
12 inexact science because they can spend a lot of time
13 there waiting for press okays to happen. But it's
14 usually by days, is the way it's set up, and then as
15 you get closer, you kind of get more finite.

16 Q There is a point in the process, isn't
17 there, where the publisher says, "Okay. I'm done with
18 what I have to do. Now you start doing what you have
19 to do." The copy has to be --

20 A Yes.

21 Q -- all there and no changes.

22 A Well, in the case of the printing process or
23 imaging, the whole thing doesn't have to be there to
24 start. It can come in in drips and drabs at first.
25 It's when you get to finishing that you really have to

1 have all of the components there to do the final.

2 Q And that's the point I'm talking about, the
3 point where the publisher can't make anymore changes
4 in the content of the publication.

5 A Well, once they go to press with the final
6 form, they are not going to make any changes after
7 that anyway, or it's back to press. Then once they
8 get to that point, then you move into --

9 Q And at that point, they are told that there
10 is a particular day, "August 3rd is your day, and
11 after August 3rd, that's it. Your hands are tied. We
12 take over" or is it noon on August 3rd?

13 A No. It's kind of there is no exact science.
14 If there is some film late -- film -- there is no film
15 anymore -- if there is imaging late for a particular
16 signature, you know, you're probably going to give the
17 client whatever time you can as long as you're not
18 running up against another job.

19 So it's not just dependent on what that
20 particular publisher with that publication does; it's
21 what's happening all around them as well. If we don't
22 have any open press space, let's say, then we're going
23 to be tighter with the client. They are either there
24 or they are not, and they miss their press time, then
25 they might miss a few days. If we have presses

1 available that we can kind of hold back a little bit,
2 then you might be a little bit more flexible. The
3 same way in the binding; you kind of use what you have
4 at that time, and that determines how flexible you can
5 be.

6 Q Do you know, in your career, of publishers
7 that on particular issues have delayed their printing
8 to accommodate either a major advertisement or a major
9 story?

10 A Sure, many times.

11 Q With respect to the major story, you would
12 expect that to occur in time-value publications more
13 than in publications without time value. Isn't that
14 right?

15 A For the most part, yes.

16 Q For example, if there is a magazine that
17 covers firefighting, and they were scheduled to go to
18 print on 9/11, you might expect that they would want
19 to hold that a couple of days to get a story in
20 because if they didn't, it would take another month
21 before they did.

22 A It's possible.

23 Q You would expect that to happen either not
24 at all or far less frequency with a magazine like
25 Glamour or Better Homes and Gardens, wouldn't you?

1 A You would assume it wouldn't happen very
2 often there, yeah.

3 Q They know when the Thanksgiving turkey has
4 to be cooked.

5 A Yes.

6 Q Please look at the answer to Question 45.

7 A Okay.

8 Q And focusing on your first reason why it's
9 beneficial to move volume from postal transportation
10 to private transportation, you say that "private
11 transportation provides for more control of the
12 product for a longer period of time." That part, I
13 understand. Then you go on to say, "reducing the
14 number of bad things that can happen in postal
15 processing and distribution. I guess I don't
16 understand, and maybe you could help me, why private
17 transportation reduces the bad things that can happen
18 in, one, processing and, two, distribution, by which I
19 assume you mean delivery.

20 A I'm going to separate distribution from
21 delivery, but I'll explain. The one reason we love
22 drop shipping, whether it's publications or
23 catalogues, is that it gives us control of that
24 product for a longer period of time. And when I say
25 that it's reducing the number of bad things that could

1 happen, it's because we're bypassing postal operations
2 in different facilities, different locations, so that
3 they either don't have to process the mail in an ADC
4 or an SCF or they don't have to distribute it from
5 that plant to the next location.

6 If we enter it at an ADC, it not only gets
7 processed in a lot of cases; it gets distributed by
8 the Postal Service to the next plant, and any time
9 you've got those things happening with the Postal
10 Service, there is a chance that it could get delayed.
11 Any number of things could happen.

12 So, as I mentioned, because we're not only
13 trying to reduce the cost for our customers, but we're
14 trying to help them get the product to the consumer in
15 a more timely fashion, this helps us control that
16 whole process a lot better.

17 Q You didn't mean delivery when you said
18 "distribution."

19 A No.

20 Q Then in Answer No. 2, you say, "where
21 private transportation is more efficient than USPS
22 transportation." Does that mean the same thing as
23 less expensive than USPS transportation? Did you mean
24 anything other than expensive when you talked about
25 efficient?

1 A Well, efficiency is cost, and it's also
2 time. I think that we just have a better control over
3 what happens than maybe the Postal Service does, but
4 efficiency is usually related to cost, and it does
5 come into play here.

6 Q Then you conclude that if, in fact, private
7 transportation is used where it's more efficient to
8 allow the Postal Service to reduce its transportation
9 infrastructure, what do you mean by "transportation
10 infrastructure"?

11 A Well, and this, again, is my assumption of
12 the infrastructure of the Postal Service, if we can
13 move more product to our own transportation, the
14 Postal Service can then eliminate some of those loads
15 where they send trucks into our plants for either
16 plant loads and/or just local-entered mail. So a lot
17 of those type contracts, they are able to eliminate,
18 the ones that go from our plant to either the BMC or
19 the ADCs locally and just take local-entered mail. To
20 me, that's some of the inefficiencies that are baked
21 into the transportation part of the Postal Service.

22 Q I'm still not sure what "infrastructure"
23 means in this answer.

24 A Well, infrastructure, what I'm talking about
25 is just any part of their transportation, whether it's

1 the actual trucks itself or the fact that they have
2 got to set up those contracts of trucks that come in
3 to pick up mail at our plants that's on their own
4 transportation. I would like to see all of that gone
5 or as much of it as possible.

6 Q In Question 46, we asked you, to whose costs
7 you were referring on line 12 of page 13. So if you
8 could take another look at that, line 12 on page 13.
9 That sentence says: "Without the proper rate signals,
10 costs will continue to rise." And the answer to whose
11 costs, it doesn't say whose costs; it says what costs.
12 Do you mean the Postal Service's costs?

13 A Well, I think the Postal Service cost, but I
14 think also our cost. Let me just clarify. One of the
15 things that we try to do from a distribution
16 standpoint is try to get as much product as we can in
17 one -- I'll call it a stream, for lack of a better
18 word, and when we have to continually separate drop-
19 ship mail from local-entered mail, it's an
20 administrative issue. It's a handling issue. It's
21 duplication of trucks in some cases. There is a cost
22 there for both us and the Postal Service, and I think,
23 you know, if you look at the incentives that could be
24 here to get us to do more transportation using our own
25 trucks, it just gives us more opportunities to be more

1 efficient internally, but then it also helps reduce
2 the Postal Service's costs.

3 Q So would it be fair to say that you mean
4 that the costs paid to the Postal Service by mailers
5 and the costs paid to printers and truckers by
6 mailers, that a combination of those two would be
7 reduced?

8 A Yeah. I kind of go back to this whole thing
9 with pricing today and the fact that we're not just
10 trying to do this to reduce costs and postage costs;
11 we're trying to be efficient in our manufacturing and
12 distribution process, you know, for the good of
13 everything to be competitive in a lot of different
14 ways, not just with other printers but with other
15 forms of media, and we need the incentives to be able
16 to do some of those things.

17 Q What about the word "delivery" in this
18 answer? Here, did you mean the carrier taking the
19 mail to the house, or did you mean distribution?

20 A I think I meant distribution here. I will
21 use delivery and distribution interchangeably in some
22 cases.

23 Q But not here.

24 A But not here.

25 Q In Question 47, we asked you to provide a

1 list of printers that are willing to co-palletize or
2 pool ship periodicals produced by other printers with
3 those that they themselves print, and you said you
4 didn't know. Is Quad willing to pool ship with
5 products of other printers?

6 A That's a question we've been trying to
7 answer for a long time.

8 Q You either are or you aren't at the moment.

9 A We aren't at this time.

10 Q You are not willing.

11 A No.

12 Q And you know, don't you, that other printers
13 share -- at least some other printers share that view?

14 A At this time, but, again, I think, given the
15 right set of circumstances and dollars to be made,
16 that changes your strategy a little bit. So it's not
17 out of the realm of things to do if we've got the
18 right incentives, and somebody is looking for someone
19 to provide a service for them that they can't get
20 somewhere else.

21 Q Well, if they can't get it somewhere else, I
22 assume one of the reasons the printers -- maybe not
23 the only reason, but one reason is they say, "If you
24 print with us, you can have our pool shipping," and
25 they just don't want to allow customers to cream skim.

1 A That could be part of the reason.

2 Q In response to Question 57, in the third
3 paragraph you provided an estimate of between half a
4 million and two million dollars for what you call a
5 "complete co-mail production line." What kind of
6 volume can that type of complete production line
7 handle?

8 A I guess I would ask, are you asking within a
9 given period of time? I mean, you know, depending on
10 the run speed of the machine, you can handle --

11 Q Let's say you have a printer that printed
12 periodicals with 50,000 circulation, and they all
13 wanted to co-mail, and they are all monthlies. What's
14 the maximum number of such periodicals that the
15 printer could co-mail on the half-million-to-two-
16 million-dollar production line that you're
17 hypothesizing here?

18 A Well, I'm using -- the high end here would
19 be a machine like we have, let's say, with 24
20 different pockets or feed stations, so technically,
21 then, 24 different publications.

22 Q If they ran one pool a week, so that would
23 be 96 a month. Is that a fair estimate?

24 A I guess with real simple math, you could say
25 that would be the easy way to figure it out, but then

1 again, depending on, you know, the speeds you run,
2 50,000 copies of 24 different publications, you may be
3 able to run two different pools each week, so you may
4 be able to double that. In that scenario, that's
5 probably the number you're looking at, and there is a
6 wide range because most of those machines are modular
7 so you can add as many pockets as you want to.

8 Q Thank you. That's very helpful.

9 I think there is a word missing from your
10 answer to Question No. 58, Part C. If you look at the
11 second page of that answer, five lines down, the
12 sentence that begins "because of changes," and you
13 say, "We would consider any periodical with less than
14 15 percent advertising as a possible drop-ship
15 candidate." I suggest you may have meant we would not
16 consider any periodical with less than 15 percent. Is
17 that correct?

18 A No. Well, I guess --

19 Q Or could you mean more than 15 percent?

20 A I guess what I'm saying there is we would
21 use 15 percent as kind of the threshold today where we
22 would have to take a real hard look at the analysis
23 for that publication. We would be pretty sure that we
24 could drop ship parts of it based on past history, but
25 we would have to do the analysis to know what part of

1 it we could. Above 15 percent, we would be much more
2 confident that we could drop ship more.

3 Q And the amount you could drop ship for these
4 sort of marginally advertising products; would that
5 depend upon the density?

6 A It depends on the density. It depends on
7 the weight of the book. It can depend on what we
8 happen to have in our mail pool on the entries that
9 we're going to that week. Some folks think that just
10 because you have a pallet of mail going somewhere,
11 that it's automatically going to drop ship to that
12 destination. That's not always the case. We may not
13 be going there with a truck because we don't have
14 enough other product in that particular mail pool to
15 do that. So you may enter somewhere else, or you end
16 up not drop shipping at all because of that. So those
17 kinds of things can have a bearing on whether or not
18 you drop ship as well.

19 In addition, we may have a situation where
20 you have a publication that could have no advertising,
21 maybe doesn't qualify for drop shipping, per se, from
22 a cost standpoint, but we may choose to put it on our
23 truck because we have an open spot on that truck going
24 to a destination so we'll help the client that way
25 maintain consistency of delivery. They are not going

1 to pay more than what they are going to save, but it
2 saves us a position on that truck and fills the truck
3 up, too. So we play with the distribution a little
4 bit that way, and that kind of makes it not an exact
5 science, at least in our world.

6 Q Please look at Question and Answer 67.
7 Again, I'm going to, I guess, challenge you on a claim
8 that information is proprietary and ask you to support
9 it. We asked Mr. Stralberg for a list of how many of
10 the Complainants' periodicals are printed in more than
11 one facility, and we got the answer with no claim of
12 proprietariness [sic] to that. Can you tell me why
13 it's proprietary to simply say that a publication is
14 printed in more than one place, especially if you're
15 not even giving the name of the publication?

16 A Let's go back to the scenario I mentioned
17 much earlier where we might be looking at monthly
18 magazines that we would want to print in different
19 locations, something that's not being done today.
20 That would be something that we would not want someone
21 else to know because that's the competitive part of
22 the business.

23 Q That's your plan. I'm talking about what
24 you're actually doing. Mr. Stralberg was perfectly
25 comfortable, and the publishers in this case were

1 perfectly comfortable saying, these are our
2 periodicals we print at multiple plants, and there
3 were, I think, five of them, and the other hundred and
4 whatever were printed at a single plant.

5 A We might have publications today, though,
6 that we print at a location, and we don't necessarily
7 mail there. We might mail at a different location.

8 Q That wasn't the question. The question was
9 only the number of printing locations at which it is
10 printed, and you claim that that is proprietary. Like
11 the Commission, I think we all should be sympathetic
12 to claims of proprietariness because we don't want to
13 inhibit people like you from coming in here to testify
14 and people like my clients from coming here to
15 testify, and I did not file a motion to compel because
16 I just think that people have a right to retain
17 proprietary information if it is. But here, this is a
18 strategic issue.

19 The Complainants have presented a witness,
20 and I'm sure you read his testimony, that says how
21 easy it is to print at multiple plants and how
22 wonderful that would be to get nearer to the point of
23 distribution. We question that, and I think we're
24 entitled to prove that it's not so simple by what's
25 happening today. I guess I'll ask you again to

1 explain why it's proprietary, how anyone would be hurt
2 if somebody knew that Publication No. 21 is printed in
3 two plants.

4 A Well, I'll go back to say what I said
5 before. We just don't want anyone else to know
6 whether or not we're printing monthly magazines or
7 weeklies or whatever it might be. The weeklies, you
8 got the information, and that's kind of common
9 knowledge if they are printed at multiple plants, but
10 anything else is strategic, and as far as we're
11 concerned, it's confidential.

12 Q Okay. The Postal Service asked you, in
13 Question 5, about cost differences between big
14 printing plants and smaller printing plants, and you
15 said you don't have the information. Let me ask you a
16 little more specific question, again, with the all-
17 other-things-being-equal caveat. If you're printing a
18 million copies of a publication versus printing
19 100,000 copies of a publication, all other things
20 being equal, given the fixed costs and the make ready,
21 isn't it true that the unit printing cost for the
22 100,000 print job would be higher than the unit cost
23 for the million print job?

24 A I'm not sure if I agree with that, only
25 because I would assume that different equipment is

1 being used other than what we have for a million run,
2 and the economies of scale would be pretty much equal.
3 I think pricing, at least the pricing that I'm aware
4 of, is pretty similar, and the pricing would determine
5 what the cost was.

6 Q Vice-versa.

7 A Well, from my perspective, if I know that
8 pricing is relatively the same across the industry,
9 then I'm thinking that the cost to create that pricing
10 was pretty much the same for everyone as well. So I
11 don't know enough about short-run printers to know
12 what their pricing is, but I'm not sure I agree with
13 what you said, only because what I'm saying is that we
14 would use different equipment to run maybe a longer-
15 run type of publication than a short-run printer might
16 use. Now, whether it's the size of the equipment, the
17 number of pockets, the bells and whistles that we
18 have, so I'm not sure if the cost is really that
19 disparate.

20 Q But if the holding all other things equal
21 also means the equipment, when you run a 50,000-copy
22 job, do you run it on different equipment than you run
23 a 500,000-copy job on?

24 A No. And I think, from the standpoint of the
25 total quantity that we print, we very seldom print

1 less than 100,000 copies, so the distribution of those
2 copies could be newsstand and other things. So the
3 print run is really what we look at, and the printing
4 presses and the binding lines that we have are based
5 on quantities that are basically above that number,
6 whereas somebody who does shorter-run jobs and maybe
7 only does print runs of 50,000 maybe has different
8 type equipment to do that. I'm not sure, but that's
9 kind of what I think might be happening. That's as
10 much as I know.

11 MR. STRAUS: And that's as much as I have.
12 So thank you, Mr. Schick.

13 THE WITNESS: You're welcome.

14 CHAIRMAN OMAS: Thank you, Mr. Straus.

15 We will take a ten-minute break and come
16 back at eleven-thirty with Mr. Bergin. Thank you.

17 (Whereupon, a brief recess was taken.)

18 CHAIRMAN OMAS: Excuse me. I think we will
19 begin now. Mr. Bergin?

20 MR. BERGIN: Thank you, Mr. Chairman.

21 CHAIRMAN OMAS: And would you pull the mike
22 closer to you? Mr. Schick will do the same, and maybe
23 we won't have these shocking noises to contend with.
24 Thank you very much.

25 CROSS-EXAMINATION

1 BY MR. BERGIN:

2 Q Good morning, Mr. Schick. My name is Tim
3 Bergin. I represent the McGraw Hill companies. I
4 have a few additional questions for you.

5 Referring back to your answer to ABM
6 Interrogatory 58(c), where you discuss the drop
7 shipping of high-editorial publications and how that
8 has grown over the years, your ability to drop ship
9 these days up to 85 percent editorial -- is that
10 correct? -- and beyond that conceivably?

11 A Correct. In some cases.

12 Q I think you mentioned you were confident
13 that at least at that level the opportunities had
14 increased for drop shipping.

15 A Portions of the circulation would probably
16 qualify for drop shipping, yes.

17 Q And one fact I believe you mentioned was
18 that you're doing a greater volume of drop shipping,
19 and often it makes sense to include high-editorial
20 publications in conjunction with other drop-shipped
21 mail.

22 A Yeah. If we end up having a trailer load
23 going to a drop-ship destination, and we happen to
24 have a pallet or two pallets, whatever might fit on
25 that truck, and the truck wouldn't have anything else

1 to fill it out, it makes more sense for us to include
2 that as part of the drop ship and just work out the
3 cost of savings versus freight for that particular
4 customer just to kind of balance things off than it
5 does for us to try and set that up as a separate,
6 local-entered mail, and then it also benefits the
7 customer because they are getting the benefit of a
8 delivery through the drop ship.

9 So it's easier for us to manage, I think, as
10 I said, one distribution stream for mail, if possible,
11 as opposed to having drop ship, non-drop ship, that
12 type of thing.

13 Q I see. You also indicated in your answer to
14 ABM Interrogatory 58 that your ability to drop ship
15 high-editorial publications, your increasing ability
16 to do so over time, has been affected by changes in
17 the rates, the pallet rates for periodicals.

18 A Yeah, particularly when the drop-ship zones
19 were added in -- I think it was the last rate case or
20 the case before, the SCF zone and the ADC zone. That
21 helped a lot, and then that in combination with the
22 piece discount.

23 Q With the piece discount as well?

24 A Yes.

25 Q And would it be fair to say that the pallet

1 discount and the pallet drop-ship discount that were
2 added in the last rate case also contribute to the
3 ability to drop ship periodicals?

4 A I think it helped. You know, obviously, we
5 were looking for more incentive there to make it more
6 of an issue, but every little bit keeps moving you in
7 the right direction, so it did help.

8 Q And the same would be true of the co-
9 palletization, drop-ship discount for periodicals on
10 the piece side that was implemented in 2002?

11 A Yeah. That was another contributing factor
12 to enabling some publications who either didn't drop
13 ship before to maybe drop ship part of their mail or
14 for those that were maybe drop shipping some mail to
15 do more, so it helped.

16 Q And are you familiar with the currently
17 proposed experimental rate for co-palletization drop
18 ship on the pound side?

19 A I am.

20 Q And that would also be a contributing factor
21 to your ability to drop ship periodicals mail.

22 A Actually, we've looked at that one, and for
23 us, it really doesn't do much. From my perspective,
24 it's really kind of counterproductive to what we
25 really want to see. I think, in my testimony, I

1 mentioned that when we kind of keep discounting things
2 by drips and drabs, it really doesn't get us to where
3 we need to be. From the standpoint of us investing in
4 our infrastructure, in our technologies, and our
5 equipment, you know, little bits and bits don't give
6 us that incentive to do it. You kind of have to get
7 the whole enchilada at one time and have something
8 there that provides for greater incentives.

9 So I'm going to say this: The pallet
10 discount, the co-pallet discount, and the second co-
11 pallet discount; if we had not been in a position
12 where were to begin with, I'm not so sure those little
13 changes would have provided much of an incentive for
14 us to do anything different, and, in all honesty, they
15 probably just added to what we were already doing. It
16 didn't change anything that we were doing, for the
17 most part. It did enable some clients to do a little
18 bit more, but for the most part, it just kind of added
19 on to what we had already been doing.

20 Q Of course, as I understand it, Quad began
21 co-mailing in the mid-eighties when there were none of
22 these rate incentives that we have just been
23 discussing.

24 A Correct.

25 Q Is it fair to say that although the rate

1 incentives we've been discussing were not necessary
2 for the scale of co-mailing that Quad has undertaken
3 over the years, that nevertheless, they have
4 contributed to the ability to continually reduce the
5 advertising percentage that is available potentially
6 for co-mailing, at least in part?

7 A From our personal perspective?

8 Q Yes.

9 A I would say that growth in the volume is a
10 major contributor to that. When you get to a certain
11 scale of volume there, it just affords you some
12 opportunities that maybe you wouldn't have otherwise.
13 So what we're able to do with the volumes that we have
14 and the certain advertising percentages may not be
15 something that most of the other folks out there can
16 do unless they have volumes that are equal to ours.

17 Q Do you have an understanding of why it is
18 that the Postal Service transportation network for
19 periodicals appears not to be competitive with private
20 delivery, given the scale of operations?

21 A I think Mr. Stralberg talked about that
22 yesterday. The only thing I would just kind of add on
23 or reaffirm is that the difference, I think, is that
24 they are tied into those timely routes that they have,
25 and they move those routes without much mail on their

1 trucks, whereas our distribution, we don't move trucks
2 without full loads, so we're always at capacity, we're
3 always totally utilizing those trucks, and it's just
4 much more efficient for us to be able to do that. I
5 think that's probably the biggest differential.

6 Q When you talk, in your response to ABM
7 Interrogatory 45, about increased drop shipping
8 enabling the Postal Service to reduce its
9 infrastructure to be better aligned with current
10 volumes, are you suggest that in your perception, and
11 perhaps that's what you were referring to a moment
12 ago, there is an overcapacity issue with respect to
13 the Postal Service transportation?

14 A I think that's part of it, but I also think
15 it's their need -- as Mr. Stralberg said, there are
16 contract routes where those move at set periods of
17 time regardless of what's on them. I think that adds
18 to the cost, but as I mentioned earlier, I think that
19 the different parts of their transportation network
20 can be reduced by some of the things we're talking
21 about, particularly those trucks that they send into
22 our plants to pick up mail that's not drop entered.
23 As we drop enter more mail, obviously they don't have
24 to utilize those trucks anymore either, so I think
25 that's one place where I would notice that there is an

1 opportunity to save.

2 Q Now, you've testified that under the
3 proposed rate structure, there will always be, in your
4 view, some portion of periodicals mail that will, for
5 various reasons, not be amenable to co-mailing or co-
6 palletizing or drop shipping. Is that a fair
7 statement?

8 A Yes.

9 Q There are a variety of factors, and I think
10 you discussed a number of them this morning, that lead
11 to this result, and I would just like to go through
12 some of them with you.

13 You mentioned, for example, in your answer
14 to Interrogatory No. 59, that the smaller circulation
15 of a publication may be a factor which limits its
16 ability to be co-mailed and so forth. Is that
17 correct?

18 A Yes. I did mention that.

19 Q What sort of circulation, if you can ball
20 park it, do you have in mind in this regard?

21 A Well, I kind of quantified it here by saying
22 a smaller circulation with tight production and
23 delivery schedules, and I'm not sure I can really
24 define what smaller is. Smaller can be kind of
25 anything for anyone. I think it's just an issue that,

1 obviously, if you start off with a small circulation,
2 if it's a national circulation, it's going to be more
3 difficult to try and move that mail to pallets if you
4 can't co-mail or co-palletize.

5 On the other hand, I've also mentioned in my
6 testimony that I think there's opportunities out there
7 that we don't even realize there could be for co-
8 mailing or co-palletizing, and that could apply to
9 weekly magazines, and it can apply to short-run-
10 circulation magazines as well. Again, I think that if
11 you are presented with the opportunities and the
12 incentives to look a little further than what you've
13 been looking in the past, you'll probably find ways of
14 doing things that you didn't know were there.

15 So I'm not going to ever say that it's
16 impossible for small-circulation periodicals to take
17 advantage of drop shipping, by any means; I'm just
18 saying it's more difficult. And again, I can't really
19 define "smaller" because it's a term that is different
20 for everyone.

21 Q Is this part of the ready, shoot, aim
22 philosophy that you've referred to in your testimony?

23 A Ready, fire, aim?

24 Q Ready, fire, aim?

25 A Yes. It's somewhat associated with that.

1 Q You're talking about opportunities that are
2 not on the drawing board yet, but your suggestion is
3 that if there are sufficient incentives, then new
4 things may be developed to overcome some of the
5 current obstacles for co-mailing.

6 A That's my belief. Maybe I'm, you know,
7 maybe I'm a little pie in the sky, but I really feel
8 that we have enough people in this industry who have a
9 lot of knowledge related to technology, related to
10 production processes and getting things done, that if
11 there is incentives there, and you can spend a little
12 bit more money to change what you're doing to improve
13 the way you prepare the mail to meet the rate
14 structure that's been proposed, I think people will
15 come up with that way, and it will be conventional
16 ways that maybe we think of today, but I think it will
17 probably also be unconventional ways that I can't
18 think of or anyone at Quad can't think of, and it will
19 be unique to everybody's own situation. You know,
20 that's just my personal belief.

21 Q Is it fair to say we're taking at this point
22 about speculative innovations that, as you just said,
23 you can't think of at this point in time?

24 A Well, I do have some thoughts at this time,
25 but I'm not free to share those thoughts. But I think

1 there's ways of accomplishing what we call co-mailing
2 today and doing so in a way that's unconventional,
3 that may or may not add time to production schedules,
4 that may or may not be applicable to smaller-run-
5 circulation publications, but I think that once the
6 incentives are there, people will start at least
7 looking at the opportunities and seeing if they can't
8 make those changes and adaptations to what they
9 already do today. So I really feel it will happen.

10 Q If the proposed rates were adopted, and many
11 smaller publications incurred very substantial rate
12 increases, and these new developments did not come to
13 pass in the near term, then those publications would
14 be suffering. Is that not correct?

15 A If someone couldn't make any changes to what
16 they are already doing, there may be what you're
17 saying would be a period of suffering, but what the
18 period of suffering might be, I'm not sure. It's
19 going to be dependent upon how fast they can make some
20 changes to do the things that are necessary to reduce
21 their costs, and I think, again, that's going to be
22 different for everyone.

23 Q Another of the factors apart from small
24 circulation that you mentioned as affecting the
25 ability to co-mail, and this is on your answer to ABM

1 49, is the size and piece weight of publications.

2 A Yes.

3 Q Perhaps we've discussed size already this
4 morning. Are you referring in that regard to the need
5 for a compatible trim size or something else?

6 A I'm talking about trim size from two
7 different perspectives. One is the postal
8 regulations, in that when we co-mail, we need to
9 maintain one processing category within that co-
10 mailer, so if it's all for AFSM-100, you're limited by
11 the sizes and the dimensions and the thicknesses that
12 the Postal Service defines. Likewise, if you were
13 doing the FSM-1000 co-mail, you would have a different
14 set of parameters there. And then the parameters that
15 are set by us with our equipment and the variances
16 that we can have are the other determining factors.
17 So when you put those two together, there's different
18 instances where a customer could fall out of it
19 because of those reasons.

20 Q With regard to the second one, is my
21 understanding correct that the width of two
22 publications, two more publications, that are being
23 considered for co-mailing cannot vary by more than 20
24 percent or so to make it feasible to co-mail them
25 together?

1 A Yeah. Twenty percent would probably be -- I
2 think that's even out of our spec. I think, from a
3 trim-size standpoint, you're talking, and I don't have
4 the actual dimensions in front of me, but it's
5 probably somewhere between a half inch and an inch in
6 difference trim size, width, length, that type of
7 thing, and thickness, it's probably a quarter to a
8 half an inch in variance there.

9 Q In other words, you could tolerate up to
10 those levels of variance.

11 A Yeah. And again, the machine can handle
12 pretty much anything, from tabloid to digest, at the
13 same time. It's just a matter there that when you're
14 packaging them all together, you get really a bad-
15 shaped package, and the bigger pieces suffer because
16 they get wrapped around everything else.

17 Q You also mention in your response to 49 that
18 weight can be a constraint. What are you referring to
19 there?

20 A Again, it's a postal regulation where you've
21 got the 20 ounces that determines the AFSM versus the
22 FSM-1000. So if you're co-mailing everything for the
23 AFSM-100, you have to maintain that 20 ounces;
24 anything over would not be able to qualify for that
25 particular co-mailing.

1 Q If I understand you correctly, then there is
2 a machinability constraint in the sense that all of
3 the co-mailed periodical must have the same
4 machinability to be able to be processed on the AFSM-
5 100 or the FSM-1000?

6 A Correct. So you can have a co-mailing for
7 either one; they just have to be maintained
8 separately.

9 Q And then there is a separate co-mail pool
10 for nonmachinable mail.

11 A Yeah. Let's say if you had a poly-bagged
12 mailing, and the poly wasn't automation compatible,
13 you could create a co-mailing just with those pieces
14 as well.

15 Q Another constraint on co-mailing is the
16 frequency of the particular publication. Is that
17 correct?

18 A Well, it's frequency as related to dailies
19 and weeklies and really only because of the time in
20 the schedule and whether or not there is enough time
21 to make it happen; otherwise, the constraints of a
22 weekly magazine, there really isn't any. You can
23 combine them if you have a way of doing it.

24 Q Is my understanding correct that Quad
25 Graphics does not co-mail any weekly magazines?

1 A At this time, we don't.

2 Q And that's because of the scheduling issues
3 that you just mentioned?

4 A It's because of that, and it's because a lot
5 of the weeklies really wouldn't have much to gain by
6 co-mailing anyway, so you have to weight that as well.
7 Is there enough incentive in the gains that you would
8 have versus adding time in another production
9 schedule?

10 Q That's the circulation issue? You're
11 talking about larger-circulation weeklies?

12 A Correct.

13 Q But a smaller-circulation weekly might have
14 an incentive to co-mail it but for the scheduling
15 issues.

16 A Yeah. I'll also say that even a larger-
17 circulation weekly could have incentives. If they are
18 creating a lot of different versions, and maybe it's
19 more versions than you might be able to run at one run
20 on a binding line, you may have a need to try and do
21 something with that to help each of those versions get
22 more volume to kind of get back to the presort that
23 they might have had if they weren't split out.

24 Q With regard to versions, I believe you
25 mentioned in your answer to ABM Interrogatory 48 that

1 sometimes publications printed in many versions are
2 not amenable to co-mailing.

3 A Yeah. In our process, we allow clients to
4 have a number of versions within their co-mailing run.
5 I'm not sure if that's something that anyone else
6 does, but there you limit the number, too, because
7 from a production standpoint, there is a certain
8 number of copies for each version that just makes
9 sense from a cost standpoint, and that's really no
10 different if you're co-mailing versus if you're just
11 running that book on a binding line, selective
12 binding.

13 We basically don't allow customers to go
14 down to a certain number because it just isn't
15 equitable from a cost standpoint, and most customers
16 don't try to version down to a number that really
17 isn't equitable for them anyway. So the minimum
18 numbers are kind of subject to whatever your
19 production is, but you try to stay way from that as
20 much as possible.

21 Q And you also mentioned poly wrap is a
22 potential constraint on co-mailing, and a moment ago
23 you tied that into the machinability issue. Are there
24 any other reasons, other factors that would affect the
25 co-mailing of poly-wrapped periodicals?

1 A Well, first of all, you can co-mail poly,
2 which we are doing today, poly-wrapped pieces, but you
3 have to do them as a separate co-mail run. In our
4 manufacturing process today, you could combine poly
5 wrapped and non-poly wrapped, according to postal
6 regulations, but at this time we don't have the
7 equipment to be able to do that. That could be
8 something that could be done in the future.

9 The other constraints for poly-wrapped
10 publications would be maybe the number of onserts or
11 inserts they put in the polybag. For some
12 publications, they do a lot of onserts, and depending
13 on the number of pockets you would have on a Sitma
14 wrapper or a Buhrs wrapper, you may have constraints
15 there because of that.

16 Q The fewer the feeder pockets on a co-mailing
17 machine, the greater the limitations on the co-mailing
18 that could be done?

19 A Yeah. The number of pockets determines how
20 many different publications you can run on that
21 particular machine. So the example I used earlier, if
22 you had a four-pocket Sitma or co-mailer, you're
23 limited to four different publications. Now,
24 depending on the versioning of those publications, if
25 they were by zip code, geographic versions, you could

1 do multiple versions within there, but you're limited
2 to four publications at one time. So as that volume
3 grows, -- those machines are all modular -- you can
4 add another four pockets, another eight pockets, and
5 pretty much build it up to whatever you really want to
6 put on there.

7 Q Is that a significant investment, to add
8 modular pocketing?

9 A No. Once you've got the base machine, the
10 base sitting there with four pockets, the adding of
11 additional sections is really -- I don't want to say
12 "minimal" because it's not minimal, but it's the least
13 of the cost. So it's not very cost prohibitive, and
14 it's not that much to spend.

15 Q Can you ball park it for me, describing
16 first what you're adding in terms of modular pockets?

17 A You're basically just taking -- you have one
18 section of the machine that has four pockets, -- it's
19 going to be hard to kind of picture this -- and then
20 it has a raceway where the books are fed off into, and
21 essentially you're just adding another four pockets
22 just like that with the additional raceway and then
23 the mechanics to go along with it.

24 It would even be hard for me to ball park,
25 but let's say it's \$50,000 to \$100,000. Maybe that's

1 a reasonable number. It could be high; it could be
2 low. I'm not sure. But the base machine with the
3 mailing position with the stacker; that type of thing
4 is really where the major cost is.

5 Q A machine with four pockets could only
6 handle one publication if there were four versions of
7 that publication being run. Is that correct?

8 A No. If it was a publication that had
9 versions by geographic area so it was split by zip
10 codes, you could essentially run that one publication
11 in one pocket, and you would just change the version
12 as you got to that zip code change.

13 Q I see.

14 A And some publishers will run that way. If
15 it's a demographic version, yeah, then you would have
16 to use the four pockets.

17 Q Thank you. Then you mentioned, I believe,
18 at least one other constraint, potential constraint,
19 on co-mailing. You referred to ink jetting or
20 personalization inside the book.

21 A Yes.

22 Q That was in your response to ABM 16. Can
23 you explain for the record what you are referring to
24 there?

25 A Yeah. If a publisher was going to do some

1 kind of ink-jet addressing inside the magazine,
2 whether it was on an advertisement or on a card, and
3 it was specific to a subscriber or to a version,
4 generally, today, we are not ink jetting inside on our
5 co-mailers, so the publisher wouldn't be able to do
6 that because it would be essentially impossible for us
7 today to take those publications with some kind of
8 specific printing in it, move it to another machine,
9 and maintain control of that so that you are putting
10 the proper address for the subscriber on that piece.
11 So that limits today as to what you can do there, but
12 that's not something that prohibits you forever;
13 that's just a technology that we haven't applied yet
14 because it's cost prohibitive today to add that to
15 what we're already doing. The technology is there to
16 allow it, so you could do it as long as you had enough
17 customers that were willing to take advantage of it,
18 and you had enough savings that would come into play
19 to cover the cost.

20 (Pause.)

21 BY MR. BERGIN:

22 Q In response to ABM Interrogatory 65(b), I
23 believe you testified that under the proposed rates,
24 Quad would likely consider investing in additional co-
25 mailing equipment.

1 A Correct.

2 Q And I believe you also referred again to
3 your ready, fire, aim philosophy. Does that reflect
4 the fact that Quad, in the past, had pioneered co-
5 mailing, so to speak; and, therefore, presently may be
6 less risk averse than other printers in terms of
7 making co-mail investment?

8 A Well, I think, obviously, having been in
9 this for almost 20 years, we understand what we're
10 doing and the benefits that we and our customers get
11 from it, so that does make us less risk averse
12 overall. But, you know, mentioning the ready, fire,
13 aim theory, that's just one of those things that our
14 company president, Harry Quadracci, established when
15 we started the company and kind of instilled in us,
16 that if you know the business, you know the direction
17 the industry is going, you want to lead the industry
18 further in that direction, you make the investments,
19 you move, and people follow, and people come to you
20 for whatever it is you're getting into, and that's
21 kind of our approach here.

22 Now, to me, the rate structure that's here
23 makes it very easy for us because we know this works,
24 it has worked, we can build on it, but then we can
25 also do things that we haven't done because of the

1 cost factor that we know will play into both co-
2 mailing, co-palletization, and drop shipping but be
3 able to add more value to our customers and more value
4 to our company. So that's why I think this is the
5 right direction. That's why we're supporting this.

6 Q Do you think Quad is somewhat unique in
7 terms of its commitment to co-mailing among printers?

8 A I like to think we are, but I know there's
9 others that are major competitors that have some
10 processes in place. So one of our other beliefs is
11 that if the industry is strong, it makes us strong,
12 too, and if our competitors have technologies that we
13 have to compete against, it makes us do more to be one
14 step better, and that's kind of the excitement you get
15 from looking at this, is the opportunity to take it up
16 a notch, and I think that's what we're looking for.
17 We're looking for those rate incentives that can make
18 it more of a confident decision, although, as I
19 mentioned, you have to take some risk, but the risk is
20 we believe that's the right direction and that with
21 the right incentives, it's not that big of a risk for
22 us, and it shouldn't be that big of a risk for anybody
23 else, for that matter.

24 Q Back to our earlier discussion, you
25 recognize that there will always be some percentage of

1 mail which, for a variety of factors that we've gone
2 through, will not be able to co-mail or co-palletize
3 or drop ship.

4 A But that doesn't mean that they can't reap
5 some benefits of making changes to align themselves
6 with any new rate structure. It just means that maybe
7 they can't co-mail or they can't co-palletize or they
8 can't drop ship or they can't do it to the extremes
9 that others can.

10 Now, I also can see a way that, you know,
11 given a little bit of time to develop some systems
12 under this rate structure, that we could, in essence,
13 figure out a way to take that residual mail and blend
14 it in somewhere so that it's got a home, and it's not
15 a home at the bottom of the rate structure; it's a
16 home somewhere in there where it makes it equitable.

17 Q Of course, we're talking about only
18 publications printed at Quad Graphics.

19 A Well, but the opportunities aren't limited
20 to us, and, you know, it kind of goes back to the
21 question, why doesn't anybody else do this today? I
22 don't know, and from a competitive perspective, maybe
23 I don't want anybody else to do it. I would be glad
24 to take all of their business because people are going
25 to be looking for somebody to do it. So, you know,

1 when competition comes about in an industry, people
2 move in the direction that they need to.

3 Q Is it fair to say your competitors have been
4 less optimistic, or however you want to describe it,
5 in terms of the potential of co-mailing than Quad
6 Graphics, in your view?

7 A I think maybe, but I think there's other
8 factors that play into that. I think, as a private
9 company, you know, we just have to answer to our own
10 profit sharing, so we can maybe take some risks and do
11 some things that public companies have to have a
12 better handle on, and that could be one of the
13 differences that separates us from some of the things
14 we do.

15 On the other hand, it's probably a little
16 bit of our corporate culture as well, in that, you
17 know, we had to survive when we were a little company,
18 and when we were a little company, we were still
19 competing against, you know, the R.R. Donnelleys and
20 the Bantas of the world, and we like to think that
21 we're still a small company, even though we've gotten
22 a lot bigger. So we still have that same competitive,
23 think-small-type approach to things, and I think
24 that's kind of what keeps driving us in the direction
25 that we go.

1 Q Is it fair to say that a publicly held
2 company, unlike Quad Graphics, may have more rigorous
3 requirements for justifying investments beforehand in
4 terms of investing in co-mailing equipment?

5 A Happily, I'm not in a public company, but I
6 guess that's one of the things that they have to look
7 at before they make capital investments, so I guess I
8 would agree with what you said.

9 Q And it's not just a question of making a \$2
10 million or greater investment in a co-mailing machine.
11 There is also a need to have floor space and building
12 space to accommodate the machines for printers who are
13 looking to get into co-mailing on a scale that Quad
14 has done. Is that fair?

15 A That's a fair statement.

16 Q So that would be an additional constraint or
17 investment cost.

18 A Yeah. And again, every position may be a
19 little bit different, depending on the available space
20 they have or the type of equipment that they already
21 have on their floors.

22 Q Is my understanding correct that Quad
23 Graphics' primary co-mailing operations are performed
24 with specialized co-mailing machines and not simply
25 selective-binding machines and poly-wrap machines that

1 may be readily at hand at most printing plants?

2 A Yeah. The co-mailing that we do off line
3 today in kind of our standard co-mailing is Quadtech-
4 built equipment, which up until recently was open to
5 be purchased by any printer in the industry and, in
6 fact, has been in the past. But then we also use some
7 Sitma equipment, which is a common type of piece of
8 equipment that a lot of printers have to do the poly
9 co-mailing, and we also use the Sitma to do nonpoly
10 co-mailing in one of our other sites, so it's a little
11 bit of everything.

12 Q But the poly-wrap machines, like the
13 selective-binding equipment, generally have
14 considerably fewer feeder pockets than the off-line,
15 standard, co-mailing machinery. Is that fair?

16 A I can't really answer that. We have some
17 Sitma wrappers that have just as many pockets as our
18 co-mailers. I don't know if others in the industry
19 have Sitmas that are that big, but I would guess that
20 they have Sitmas that probably have, you know, at
21 least a dozen pockets on them, again, because they are
22 probably using them for multiple onserts within the
23 package.

24 Q Referring you to your response to ABM
25 Interrogatory 64, the question asked you to identify

1 all printers other than Quad Graphics that you believe
2 may have a substantial periodicals comailing volume
3 and/or a substantial investment in the comailing of
4 periodicals to the extent you view them as a serious,
5 actual or potential competitor. Your answer was: "I
6 do not have that information."

7 Does that mean when it comes to comailing
8 periodicals, Quad does not perceive any actual or
9 potential competitors among printers out there?

10 A No, that's not the case. We look at our
11 competitors very seriously. I guess I would add that,
12 you know, 30 years ago probably no one was looking at
13 Quad Graphics because we were just a little spot on
14 the wall.

15 This is the type of change in process and
16 technology that could allow a small printer to become
17 the next Quad Graphics if they wanted to because
18 there's an opportunity here to take a risk and to
19 build on some real value added processes.

20 I look at our competitors that we have today
21 -- the Donnelleys, the Quebecors, the Bantas, the
22 Browns -- but I also look at other printers out there
23 who print periodicals, whether large or small, as a
24 potential huge competitor because of the opportunities
25 that could be presented.

1 Q Are you saying that they could do what Quad
2 did, a smaller printer starting today?

3 A I don't see any reason why somebody
4 couldn't.

5 Q When you started off in the mid 1980s, you
6 weren't facing an established comailer like Quad
7 Graphics is today competing with you?

8 A No, but when we started the company in 1970
9 printing prices were terrible, and the industry that
10 we got into was at one of its worst levels. We made
11 it work, and we continued to make it work by making
12 the investment in things like comailing and other
13 processes that would help us compete.

14 From that perspective, you know, I see that
15 there's opportunities and that anybody could be
16 competitive if they chose to make some investments.

17 Q But it would be more difficult today,
18 wouldn't it be fair to say, for someone to gain solid
19 entry into the comailing field than it was in the
20 1980s when no one else was doing it?

21 A I don't think so because at that time we had
22 to develop the equipment, the process, the software,
23 everything we did. Today the software is available.
24 The equipment is available. Mail.dat files are used
25 to convey the information between printers, between

1 list service bureaus, between distribution companies.

2 Basically anybody can go out and buy this
3 stuff today that's there and make the process work.
4 From that standpoint, it's not a gamble at all. It's
5 all there to put together to do the type of process
6 needed.

7 Q But I take it you're not aware of other
8 printers, apart from Quad, who are actually doing
9 that, investing significantly in comailing?

10 A I think I mentioned earlier when Mr. Straus
11 was asking me that I am aware that Donnelley and
12 Quebecor do some comailing. To the extent I'm not
13 sure, but I think recently we've also seen a notice
14 that Perry Judd is building up another building in one
15 of their plants for comailing and copalletization. I
16 think Fry Communications has decided to get into
17 comailing.

18 You're starting to see other folks deciding
19 that it's time to do that, and I think it's in
20 anticipation of the changes that are proposed in the
21 rate structure.

22 Q Did you say that Perry Judd was expanding
23 into comailing or copalletization?

24 A From what I saw, both.

25 Q What's the basis of your information

1 regarding Fry?

2 A Fry was just kind of word of mouth because
3 we sold them the machines, so they have a Quad Tech
4 multimailer.

5 Q What investment did Quad make in the mid
6 1980s when it initiated its comailing operations?

7 A At the time we built the first what we call
8 multimailer, and it was either 10 or 12 pocket. It
9 was really just a base machine that had -- we were
10 still doing paper labels -- nothing really fancy. We
11 were actually at that time using some marks on the
12 label to match to the particular publication so you
13 knew you were putting the right label on the
14 publication.

15 It was a real base machine. The investment
16 was probably I'm going to guess less than \$250,000 at
17 that time because we built it ourselves, so it was
18 pretty unsophisticated, but it got the job done.

19 Q Does Quad regard presort bureaus as
20 competitors in the comailing area?

21 A I really don't. I consider them more letter
22 mail than flat sized pieces and in particular than
23 periodicals because I just don't think they, number
24 one, understand periodicals, and there's so much more
25 complexity in periodicals.

1 It would make it difficult I think for them
2 to kind of look at that as something they'd really
3 want to do.

4 Q Are you aware or have you heard by word of
5 mouth or whatever of any printer receiving as much as
6 90 percent of postage savings as payment for comailing
7 services?

8 A No, I've never heard anything like that type
9 of a number.

10 Q Fifty percent?

11 A Yes. There's, you know, a lot of different
12 shared savings that are being used. It's kind of
13 dependent on the individual clients and how things are
14 allocated.

15 Q Does the percentage of shared savings vary
16 from client to client?

17 A It can in some cases. I think that, you
18 know, when we went into the comailing our idea was
19 that we wanted to build volume. We didn't want
20 customers to jump in and jump out, so we tried to come
21 up with an equitable way of pricing the comailing so
22 that if a customer got in they'd always be guaranteed
23 to never pay more postage or have more cost than they
24 had before.

25 That was the basis for our starting the

1 process, and we've kind of continued that right
2 through to where we are today. It obviously worked.
3 It was the right thing to do.

4 Q But under that scenario, a mailer could
5 receive say only 10 percent of the postage savings and
6 still be better off in a dollar and cents sense?

7 A Well, it depends on how you share the
8 allocation. You know, normally in a print scenario
9 you're charging per 1,000. If you apply that to
10 comailing, you could charge the customer three times
11 more than the savings they're going to get.

12 If you use an allocation of savings and
13 share in the benefits with the customer, in a lot of
14 cases that's where it becomes more equitable because,
15 you know, what they're paying is still less than what
16 they would have paid before. There's no chance
17 they're going to pay more. You continue to build that
18 pool, and the customer stays pretty much consistent in
19 being involved with comail.

20 Q But it's not simply a dollars and cents
21 issue for many mailers, is it? For example, if a
22 mailer is only going to realize 10 percent of the
23 postage savings and he has to weigh that against the
24 difficulties of scheduling that result from comailing,
25 not having the flexibility to get a late-breaking news

1 story into a time sensitive publication and so forth,
2 wouldn't that affect the mailer's overall incentive to
3 comail?

4 A It could, but I think again this is one of
5 those things where every situation is going to be
6 different for every particular publication. It's
7 going to be different for every printer in the way
8 they manage and organize a comailing or
9 copalletization operation.

10 You know, we target it to our clients and do
11 things the way we do because it fits our own client
12 base. Someone else who has a different set of
13 clients, maybe clients with different needs, I foresee
14 them obviously setting up whatever they do to meet
15 those customers' needs.

16 As I mentioned earlier, my intention is that
17 we, with the right incentives provided in this rate
18 structure, would be able to set up different co-mail
19 operations that would cover all those different types
20 of products, different types of situations, and enable
21 clients to be able to comail in a lot of different
22 ways. That's really I think the essence of what you
23 want to get to in the long term.

24 Q In response to ABM Interrogatory 65, you
25 indicated that under the proposed rate structure Quad

1 Graphics might begin to develop a copalletization
2 process.

3 A Correct.

4 Q What sort of process were you referring to?

5 A Well, I think what I'm referring to is a
6 true copalletization process where we're actually
7 combining packages of different publications onto the
8 same pallet either manually or through an automated
9 process.

10 Today the incentives aren't great enough to
11 allow us to build that. Today we only copalletize as
12 a result of comailing. I'd like to be able to build
13 that because I know it's something that's necessary.
14 Greater incentives would provide that opportunity.

15 Q This would be apart from the comailing
16 process then?

17 A It would be a separate operation probably or
18 attached to it, built into it, combined with it. A
19 lot of different things are possible.

20 Q What sort of investment do you envision in
21 that regard?

22 A I couldn't even begin to guess what the
23 number would be. I would expect that it would be
24 possibly similar to one of our parcel consolidating
25 plants where we've got a parcel sorter that does

1 essentially what we're talking about with
2 copalletization.

3 You know, what that number is I'm not sure,
4 but that would be the ultimate kind of operation we
5 build. In the short term we'd probably look at
6 manually sorting the packages until we had something
7 else in place.

8 Q Now, in your response to ABM Interrogatory
9 No. 49 you mentioned that I believe two-thirds of the
10 containers that Quad prepares are sacks.

11 A Correct.

12 Q Although they contain only five percent of
13 the volume?

14 A Right.

15 Q I believe you indicated that there were a
16 number of reasons why those sacks are prepared rather
17 than pallets?

18 A Yes.

19 Q One being delivery requirements?

20 A Correct.

21 Q I think you've testified that five digit
22 sacks can achieve faster delivery through the Postal
23 Service system than ADC pallets?

24 A I think in my testimony I said that some
25 people believe that's the case. I'm not sure I

1 totally believe that. Again, that's one of those
2 things I don't think that's been proven or disproven.

3 Q Quad has no data in that regard?

4 A No. I think, and our approach has always
5 been, that we think our personal opinion is that
6 palletized mail is still the best way to go, but I do
7 understand with some of our weekly customers who have
8 their own beliefs that five digit sacks, you know,
9 help them get the delivery they want.

10 I'm not going to argue with them. That's
11 their prerogative, and if that's the way they want to
12 produce the product and get it through the Postal
13 Service that's fine. Then we deal with it. I think
14 in most cases I still believe that pallets are the
15 best way to go.

16 Q Can you quantify the number of customers who
17 utilize five digit sacks in order to achieve better
18 service?

19 A It's pretty minimal. I would say it's less
20 than a handful of clients, and it's predominantly on
21 the weekly side.

22 Q You say two-thirds of the containers that
23 Quad makes up are sacks. Of those two-thirds, that 67
24 percent, what percentage would be attributable to five
25 digit sacks to achieve better delivery?

1 A I think that would be the smaller
2 percentage, and I can't give you an exact percentage,
3 because a lot of this -- this includes standard mail
4 as well. It's not just periodicals. It's all mail
5 that we produce.

6 A lot of this would be handwork type mail.
7 It may be other offline type mail, small versions that
8 are too small for our comailers, things like that.
9 Those are predominantly three digit ADC/mixed ADC
10 sacks.

11 Q Just to clarify your statement, in response
12 to Interrogatory 49 that we've been discussing you
13 stated: "Two-thirds of the containers we trade are
14 sacks containing only five percent of the periodicals
15 mail volume."

16 I take it since two-thirds of the containers
17 that are sacks are not simply periodicals sacks --

18 A Correct.

19 Q -- that the total Quad volume that is in
20 sacks is considerably higher than five percent?

21 A No. Maybe we didn't say this correctly
22 here. The five percent in sacks is copies throughout
23 Quad, and it's inclusive of all different classes of
24 mail.

25 Q Although you state here only five percent of

1 periodicals mail volume?

2 A Yes. I mean, that just applies to the
3 periodicals portion of what that five percent of the
4 other copies is essentially. Five percent of the
5 total volume is created in sacks of all copies, and of
6 that five percent is periodicals.

7 Q Okay.

8 A Does that clarify?

9 Q I think so.

10 A Again, you know, the main reason for that is
11 that we're comailing the majority of the publications
12 we have so that most of those facts are gone.

13 Q You state that another reason for sacks is
14 supplemental mailing.

15 A Correct.

16 Q Can you explain for the record what you're
17 referring to by supplemental mailing?

18 A They would be either, you know, new startups
19 of a publication or a back issue of a publication. We
20 roll a lot of those into our comailing operation, but
21 if they're less than 1,500 copies then they would just
22 be mailed offline by themselves.

23 You still end up with quite a few of those
24 for the 170 some publications that we have. Those are
25 generally pretty small quantities.

1 Q You referred to startup of a publication in
2 this context?

3 A It could be some new startups. It could be
4 back issue mailings. Yes.

5 Q What do you mean by new startups? Why would
6 that be a supplemental mailing, as opposed to a main
7 file?

8 A Well, if it happened that the new
9 subscriber, you know, got in in a certain period of
10 time and missed the main run, they may backfill that
11 right away with the new -- the latest version is what
12 I should have said.

13 Q You indicated that polywrapped mail may also
14 tend to go in sacks rather than on pallets?

15 A In some instances, yes.

16 Q Why would that be?

17 A Well, again it goes back to you can include
18 some of that in the supplemental. You can include
19 some of that in the fact that a lot of publishers have
20 the attached invoices to their publication, and those
21 are small versions.

22 Unless we're doing some kind of a selective
23 wrapping and inserting with those, those end up being
24 small parts of a mailing that end up falling into
25 sacks as well. It's one of the areas we're trying to

1 clean up by doing some selective inserting and
2 onserting, but it hasn't kind of caught on yet.

3 CHAIRMAN OMAS: Mr. Bergin, could you tell
4 me about how much longer you might have?

5 MR. BERGIN: I would expect to finish within
6 15 or 20 minutes.

7 CHAIRMAN OMAS: Okay. Fine. It's just
8 about lunchtime, and if you were going to go another
9 hour I would break. Fifteen or 20 minutes is fine.
10 We'll continue.

11 MR. BERGIN: Thank you, Mr. Chairman.

12 CHAIRMAN OMAS: Thank you.

13 BY MR. BERGIN:

14 Q By the same token, a magazine which is
15 prepared in multiple versions may be more likely to go
16 in sacks?

17 A Yes and no, depending on how the versions
18 are broken out. If they're versions with individual
19 signatures or binding or blow in cards, that type of
20 thing, and you can fit them all on a binding line
21 you're probably not going to have to worry about the
22 sacks because you're going to be able to put
23 everything back together.

24 If they're versions that create something
25 that you can't do on the binding line or adds to many

1 pockets and a publisher has to make a decision that,
2 you know, a certain amount of those versions will be
3 selectively bound together, but the other versions
4 have to go by themselves, then they could end up being
5 in sacks if they're not comailed with something.

6 Q How frequently does that happen?

7 A I couldn't even tell you. I couldn't even
8 venture a guess.

9 Q You mentioned smaller circulation generally
10 as, of course, a factor that would lead to using sacks
11 rather than pallets.

12 A Correct.

13 Q You also indicate, and this is in your
14 response to ABM Interrogatory 52, that smaller comail
15 pools will generate less pallets. Is that a variation
16 on the same theme?

17 A Yes. I mean, it's one of those issues where
18 until you reach a certain volume threshold, you know,
19 you have to meet the requirements to palletize or in
20 the proposed rate structure justify the cost of the
21 pallet versus the sack.

22 Again, what you're doing is even with those
23 smaller numbers you're reducing the number of
24 containers, whatever those containers might be, so
25 it's still a positive. Even if you end up with sacks,

1 you end up with less sacks.

2 Q You mentioned piece weights in your response
3 to Interrogatory 52 as a factor that would affect
4 whether mail goes in sacks rather than pallets. Can
5 you explain the reference?

6 A Yes. I mean, it's kind of -- it's a density
7 issue. If you have a publication that weighs two
8 pounds, you don't need as many copies to create a
9 pallet so it's easier to palletize.

10 Likewise, you know, if we've got *Milwaukee*
11 *Magazine*, which we own and print and publish, which
12 only has 35,000 copies plus or minus a few thousand,
13 it's all palletized. It's almost all carrier route,
14 but it's all because it's delivered to Milwaukee.

15 Density of distribution, the weight of the
16 book, those types of things, can heavily influence
17 whether you can palletize large quantities, small
18 quantities, that type of thing.

19 Q So the smaller circulation, light piece
20 weight mail would be less likely to be palletized than
21 otherwise?

22 A If it's a national publication, yes.

23 Q In your reference to whether a publication
24 is local, regional or national is a factor bearing
25 upon the likelihood that it can be economically

1 comailed, I think you just addressed that in terms of
2 density. Is that what you were referring to there?

3 A Yes. *Milwaukee Magazine* would be the
4 example. If you have a city magazine or you have a
5 regional magazine, you've already got the density to a
6 location so it's going to be easier to get the carrier
7 route, get the pallet, that type of thing, dropship.

8 Q In your response to ABM Interrogatory 53,
9 you indicated that using sacks rather than pallets can
10 impose cost upon Quad Graphics, putting aside the cost
11 effects of using sacks and pallets with the Postal
12 Service.

13 A Correct.

14 Q I believe you indicated that there are
15 instances where a mailing is comprised mostly of
16 sacks, which would result in Quad Graphics imposing
17 additional charges on the mailers in order to cover
18 added handling cost and so forth.

19 A Correct.

20 Q How often does that occur?

21 A I would say that's kind of a minimal
22 occasion for the most part, but it does happen. We do
23 have a few jobs that have a lot of sacks.

24 Q Do there tend to be consistent reasons for
25 those jobs being an unusually high number of sacks?

1 A I'm really not sure. I mean, I think it
2 kind of runs the gamut of reasons. Again, I'm
3 thinking across periodicals and standard mail, so I'm
4 not really sure of the exact reasons.

5 Let me just say it this way. It wouldn't
6 have to be a mailing that is all sacks. It could be a
7 combination of sacks and pallets, but there's a large
8 amount of sacks. That would require us to do
9 something different in our production process, either
10 adding a person or in the material handling process
11 that we would probably adjust by pricing.

12 Q Is it fair to say that as a general matter
13 if Quad Graphics incurs substantial identifiable costs
14 as a result of handling sacks during a mailing that
15 wouldn't otherwise be covered -- for example,
16 temporary labor -- that Quad Graphics would seek to
17 recover that from the mailer?

18 A Correct.

19 Q So to the extent sacks impose costs on Quad
20 Graphics, there are countervailing disincentives in
21 terms of offsetting Quad Graphics' charges against the
22 use of sacks?

23 A Yes. You know, in my response if you look
24 at the 10 things that I noted that cause us to have
25 extra cost, those are the kind of things that are more

1 or less baked into the base pricing that we might have
2 with an individual client based on the number of sacks
3 that would be produced in their mailing.

4 Then I mention that if they end up having a
5 lot of sacks, and a lot is kind of a number to be
6 determined, that's when there could be additional
7 charges that the customer would see listed for an
8 extra person in finishing for pallets in the
9 warehouse, that kind of thing.

10 Q Could I ask you to please refer to ABM
11 Interrogatory T4-8?

12 A Okay.

13 Q You state there in part: "Where there is
14 not enough volume to palletize, we are containerizing
15 the sacks in cardboard sleeves on pallets."

16 A Correct.

17 Q First of all, why do you containerize the
18 sacks in cardboard sleeves?

19 A Two reasons. One is that it saves us some
20 time in handling internally in the print plant. Our
21 forklift drivers aren't getting off their forktrucks
22 and picking up sacks that fall all over the place all
23 the time.

24 Secondly, it allows us to be more
25 efficient in our warehouse because we'll top cap them

1 and be able to stack them, as opposed to having a
2 pallet of bags hanging out there.

3 Thirdly, if we're going to drop ship it
4 instead of bed loading all the sacks it's much more
5 convenient for us to have them in a container. It's
6 much more convenient for the Postal Service to pull
7 them off in that same container and then deal with
8 them individually.

9 Q The Postal Service doesn't require such
10 containers though for sacks?

11 A They don't. It's a cost, and it's a cost
12 that we charge back to the client.

13 Q You at Quad Graphics handle your sacks on
14 pallets?

15 A We do in most cases. Actually, I should say
16 in almost all cases.

17 Q Would you refer, please, to your answer to
18 ABM No. 10?

19 A Okay.

20 Q And Attachment B, which I believe is the
21 final report of the Flats Container Development Work
22 Group that you co-led.

23 A Right.

24 Q This was to evaluate the feasibility of a
25 new flats container that would replace sacks. Is that

1 fair?

2 A Actually, I think the term container is a
3 little misleading in this regard. The container that
4 we were looking at really was to take the place of our
5 current packages. The idea was that we want to get
6 away from shrinkwrap and strapping so that the Postal
7 Service wouldn't have the 035 operation for their flat
8 sorter.

9 The idea was to try and come up with either
10 a concept like the logs that we produce off of press
11 with signatures going to our binding lines, do that
12 with finished books, or create some kind of a flat tub
13 or flat tray that, you know, you could replace a
14 number of packages with one of these type containers
15 and then that container would still ride on a pallet.

16 Q It would replace, if I'm understanding
17 correctly, both bundles and sacks?

18 A No, it really wouldn't. It wouldn't replace
19 sacks as you think of them. We're just talking about
20 let's say taking four packages and creating one of
21 these containers that didn't have to be strapped or
22 shrinkwrapped so that you'd have less handling, number
23 one, but, number two, the Postal Service wouldn't have
24 the 035 operation of pulling apart packages that we've
25 put together to induct the books onto the flat sorter.

1 That was the main focus of this group, and
2 then there was some discussion about trying to figure
3 out how to get publications out of sacks into tubs or
4 some other container, but that was really kind of a
5 secondary discussion. We really didn't do much of
6 anything in that regard within this group.

7 Q I'm just looking at the first paragraph or
8 actually the second paragraph of your report on page 1
9 where it refers --

10 CHAIRMAN OMAS: Would you speak up, please?

11 BY MR. BERGIN:

12 Q It refers at the end of the paragraph to
13 facilitating the movement of mail from sacks to some
14 other containers and then onto pallets for many
15 mailers.

16 A That was our noble effort to begin with, and
17 then once we got into this the Postal Service decided
18 that at that time they weren't ready to look at an
19 alternative to sacks because they were in the process
20 of looking at their mail transport equipment volumes
21 and supplies and inventories, and it just didn't --
22 the timing wasn't right, so they didn't want to do
23 anything with that.

24 Q So that was not pursued, or it was found
25 that that was infeasible at that particular time or

1 what?

2 A Yes. It wasn't pursued because it just
3 didn't match with what the Postal Service was trying
4 to do at the time.

5 That's not to say it's not something that
6 both the Postal Service and our group didn't want to
7 pursue, but it ended up once we got through the
8 initial mission here and got into the work group it
9 became something outside of the mission of the group
10 and wasn't something that we needed to pursue, so we
11 didn't do anything with it.

12 Q So when this report concludes, and I'm
13 paraphrasing, that at such time as the Postal Service
14 may go to delivery point sequencing and the carrier
15 route mail stream is folded into that and no longer a
16 separate mail stream that a new container such as tubs
17 might be considered, that was not with reference to
18 displacing sacks, but something else?

19 A It was really in reference to something
20 else, although, you know, it could apply to what we're
21 talking about in the rate structure here.

22 You either go to a different process that
23 allows you to create more bigger bundles, you know,
24 displacing the number of packages you normally had, or
25 you have a rate structure in place that incents you to

1 go away from those number of packages.

2 In fact, if this rate structure held true,
3 this would be the incentive that we would need, we
4 Quad and I'm sure the other major printers, to now go
5 back and look at this and say it does make sense to
6 start looking closer at the opportunities provided by
7 a tray, a log, whatever it is, because that's really
8 what we want to get to anyway because it matches up
9 with what we're doing internally in our print process,
10 and that is an automated material handling process.

11 It wasn't limited to just, you know, really
12 a rate structure that provided for this or the Postal
13 Service moving to automation strategy. It was a
14 combination of any of those type changes that would
15 create the incentive for us to do something that more
16 aligned with what we were testing.

17 Q On page 3 of the report, the third full
18 paragraph states that the Postal Service "cannot
19 afford to potentially lose revenues to the
20 implementation of a process or a rate structure change
21 that improves its automation processing at the expense
22 of its carrier route mail."

23 Can you explain what's going on with that
24 statement?

25 A Well, we had weaved into this group a lot of

1 the discussions about the Postal Service's flat
2 sequencing and where that was going to go. This was
3 just part of that discussion that said, you know,
4 don't just eliminate carrier route mail at the expense
5 of automation because you want to automate. Make sure
6 that it's the right thing to do.

7 It really wasn't much more than that. It
8 also kind of was impacted by the fact that the
9 proposal to change to a different type of package just
10 reflected the automation mail and not carrier route
11 and, you know, they didn't want to let carrier route
12 kind of stand out there by its own and create a
13 situation where that was causing us more cost as well.

14 Q In your response to ABM Interrogatory No.
15 37, I believe you indicated that the Postal Service is
16 actively considering delivery point sequencing of
17 flats.

18 A Correct.

19 Q And in your response to No. 39 you refer to
20 certain comments from the Postal Service regarding
21 future rate structures.

22 A Yes.

23 Q Was that in the context of a potential
24 delivery point sequencing system for flats?

25 A No. That was just in general discussion

1 about the direction that the Postal Service seems to
2 be going in the rate structure to reflect the cost of
3 handling of packages and containers. That's been in a
4 number of different discussions with the Postal
5 Service.

6 Q Finally, Mr. Schick, at the beginning of
7 your testimony this morning you referred to certain
8 decision making software that would need to be
9 developed in conjunction with the proposed rate
10 structure if it were to be implemented. Do you recall
11 that?

12 A Yes.

13 Q Can you elaborate on what you were referring
14 to in that regard?

15 A Well, I think it had been mentioned before,
16 if not in some testimony, that the decision making
17 software would have to be developed that would allow
18 you to weigh the way you prepare the mail.

19 You know, do you create packages, a certain
20 number of packages or at one level of presort, or do
21 you create less packages at another level of presort?
22 Do you create a container with a small minimum number
23 and create a lot of pallets? Do you create one larger
24 pallet that has a different cost?

25 The software is going to have to be designed

1 to kind of weigh those factors and also probably add
2 some information about the cost of production so that
3 you end up with something that reflects the lowest
4 combined cost of your production process and the
5 postal rates.

6 The software vendors have already been
7 brought into the discussions. They're already looking
8 at, you know, what they have to do, and they've
9 already begun the process of figuring out what they're
10 going to have to develop in order to meet a rate
11 structure that looks like this or is similar to this
12 that has the cost components and the rate components
13 that this structure does have.

14 Q Is it fair to say that to the extent that
15 such software is developed it won't necessarily
16 readily yield up for a mailer the ideal low-cost
17 scenario, but it will be a question of comparing
18 different scenarios in different inputs, in different
19 parameters, in somewhat of an iterative process of
20 trying to arrive by comparison with the ideal
21 scenario?

22 A Yes, but it will give everybody the
23 flexibility to produce a mailing in the most efficient
24 manner that suits their business needs at, you know,
25 again the lowest combined cost, trying to make sure

1 that we're not creating costs on one end of the
2 business, the printer or wherever it might be, just to
3 help the Postal Service alleviate cost or vice versa
4 or creating something that creates more cost on both
5 sides.

6 The software that probably will get
7 developed, and I'm not a software designer by any
8 means, but the software will provide all those
9 different options.

10 As Mr. Stralberg mentioned yesterday, the
11 presort software that's out there today has a lot of
12 different options for mailers to create mailings in
13 different ways. Everybody makes choices in how to do
14 that, and it affects the rates today. This really
15 isn't that much different. It's just got more
16 choices.

17 Q You mentioned a greater documentation
18 burden --

19 A Yes.

20 Q -- under the proposed rate structure.

21 A Yes.

22 Q What were you referring to in that regard?

23 A Well, I guess I'm thinking along the lines
24 of what we just went through for the copalletization
25 documentation and the fact that the software that we -

1 - not the software, but the output that we had to
2 create in order to document the copalletization
3 process is much more involved and more detailed, and
4 it just took a little bit of doing to write the
5 software to create the proper documentation.

6 The same thing will hold true here because
7 the documentation is going to have to be what the
8 Postal Service uses to determine the proper rate
9 that's being paid for a mailing. It could have
10 different minimums. It could have different package
11 sizes. It could have a lot of different things.

12 It's going to have more importance than it
13 even does today as a revenue protection for the Postal
14 Service and actually for us from a printer's
15 standpoint showing our customers exactly what we
16 produce in their mailing.

17 Q The need to develop the additional software
18 indicates that there will be some --

19 CHAIRMAN OMAS: Please speak into the mike,
20 Mr. Bergin.

21 MR. BERGIN: Excuse me, Mr. Chairman.

22 BY MR. BERGIN:

23 Q The need to develop the additional software
24 does indicate that there will be an increased level of
25 complexity and decision making to be dealt with by a

1 mailer within the proposed rate structure. Is that
2 not a fair statement?

3 A You'll have choices to make, but the
4 software will provide you the opportunity and the ease
5 to use the software to make those decisions. It's
6 complex. It's going to be complex for the software
7 providers to develop that software initially, but then
8 once it's developed it's just choices like it is
9 today.

10 Q Assuming the software is developed, it
11 remains necessary for the mailer or mailer's agent to
12 run various scenarios under the software and to select
13 various parameters to compare. Is that fair?

14 A I think the only time that would really come
15 into play is if you had a major variance from issue to
16 issue. If an issue of a publication is relatively the
17 same from one month or one week to another, you really
18 shouldn't have to do too much to analyze that to know
19 what you need to do.

20 If you're making some big changes in various
21 ways -- versioning, you know, those type of things --
22 then, yes, you may have to do some analysis to
23 determine if you need to change what you did the month
24 before or the week before, but otherwise I don't see
25 it being that big of an issue.

1 MR. BERGIN: I have nothing further at this
2 time, Mr. Chairman.

3 Thank you, Mr. Schick.

4 THE WITNESS: You're welcome.

5 CHAIRMAN OMAS: Thank you, Mr. Bergin.

6 Mr. Rubin has requested to cross-examine.
7 Mr. Rubin?

8 MR RUBIN: Yes. This should be brief. I'm
9 David Rubin for the Postal Service.

10 CROSS-EXAMINATION

11 BY MR. RUBIN:

12 Q Mr. Schick, would you turn to your response
13 to Postal Service Interrogatory 8?

14 A Okay.

15 Q In Part B you were asked about differences
16 between bundling materials for large and small
17 mailers, and you responded that you're not able to
18 provide that information.

19 Does that mean you don't have any
20 information, or do you have some information that
21 you're not willing to provide for the record?

22 A Well, I guess if you're talking about a
23 smaller mailer being a smaller printer or some other
24 type of company who prepares the mail, I really don't
25 have any specific information in regard to how they

1 wrap or strap. I know that there's different methods
2 used, but I don't know if they're specific to small
3 mailers, bigger mailers or anything like that.

4 If you're asking is there a difference
5 within Quad, you know, with our customers and a
6 difference between a larger client and a smaller
7 client, the answer to that is no. All packages get
8 wrapped and strapped basically the same way.

9 Q Thank you. Now would you turn to
10 Interrogatory 9 from the Postal Service?

11 A Okay.

12 Q You attach a spreadsheet. The third column
13 is Piece Weight. Just to clarify for the record, are
14 those piece weights in pounds?

15 A They are in pounds.

16 MR. RUBIN: Thank you. I have no more
17 questions.

18 CHAIRMAN OMAS: All right. Thank you, Mr.
19 Rubin.

20 Are there any additional followup questions
21 for Mr. Schick?

22 (No response.)

23 CHAIRMAN OMAS: If not, I have one brief
24 one, Mr. Schick.

25 Of the volume eligible for comailing

1 operations, how much is still in sacks? That is, what
2 percentage of volume does not by choice get put into
3 comail operations?

4 THE WITNESS: You're talking about the
5 publications that choose not to comail for whatever
6 reason?

7 CHAIRMAN OMAS: Correct.

8 THE WITNESS: It would be very difficult to
9 come up with the actual number, but I know that we
10 produce very few sacks in the comailing, so, you know,
11 the majority, the five percent of the volume of
12 periodicals in sacks that I talked about earlier,
13 would basically all be attribute to everything outside
14 of the comailing, if that was the question you were
15 asking.

16 CHAIRMAN OMAS: I think so, yes. Thank you.

17 Mr. Burzio, would you like any time with
18 your witness?

19 MR. BURZIO: No, Mr. Chairman. I think I
20 could finish up within 10 or 15 minutes.

21 CHAIRMAN OMAS: Fine. Please proceed.

22 REDIRECT EXAMINATION

23 BY MR. BURZIO:

24 Q Mr. Schick, David Straus took you through
25 one of the exhibits that showed what the current

1 postal rates are for some of the Complainants'
2 publications and what their rates would be under the
3 proposed rate structure in this proceeding with the
4 understanding that they made no change in their
5 current behavior.

6 Is there any doubt in your mind that Time Warner
7 for *Time Magazine*, *People*, *Sports Illustrated*,
8 whatever, and all of the other Complainants, if these
9 kind of incentives are ever built into the periodicals
10 rate structure, will not change their behavior in a
11 manner that will enable them to lower their postal
12 cost and drive cost out of the postal system?

13 A I have no doubt that changes will be made to
14 do whatever is necessary to try to align themselves
15 with the most favorable rates in the rate structure.

16 Q So although doing nothing else would produce
17 some postal cost savings for them, that is because it
18 costs the Postal Service less to handle their mail,
19 correct?

20 A Correct.

21 Q Now, you are aware, are you not, that the
22 Commission in this proceeding has already decided that
23 it is not going to recommend either the proposed rates
24 or any alternatives to them that the Commission might
25 deem appropriate?

1 A That is my understanding.

2 Q And that the only things that are being
3 considered are change in concepts for the periodicals
4 rate structure; for example, going from a straight
5 piece pound rate structure to one that incorporates
6 additional cost drivers such as the cost of sacks, the
7 cost of pallets, the cost of bundled, so that --

8 CHAIRMAN OMAS: Mr. Burzio, would you speak
9 into the mike as well, please?

10 MR. BURZIO: I'm sorry.

11 CHAIRMAN OMAS: Thank you.

12 BY MR. BURZIO:

13 Q So with no rates coming out of this
14 proceeding, there is not going to be any suffering for
15 the small circulation publications that Mr. Bergin and
16 Mr. Straus represent, will there be?

17 A There won't be.

18 Q And even if the Commission should in its
19 discretion make some of the changes in concepts that
20 we have proposed, there will not be changes in rates
21 affecting anybody until after a general rate case
22 proposed by the Postal Service?

23 MR. STRAUS: I object to that question. Mr.
24 Burzio I believe objected to a form of a leading
25 question to a hostile witness before. We just heard I

1 think the first three pages of the Time Warner brief
2 with a question to the witness does he agree.

3 That's not proper redirect examination to
4 read a long statement and have the witness agree with
5 it. These are facts that need no evidence whatsoever,
6 but they certainly shouldn't come from counsel.

7 CHAIRMAN OMAS: I think I'll allow it. Go
8 ahead, Mr. Burzio.

9 BY MR. BURZIO:

10 Q In your opinion, Mr. Schick, what is the
11 earliest date that you think that postal rates of the
12 nature that we have proposed could ever come into
13 existence and that with the sizeable assumption that
14 we are able to persuade first the Postal Rate
15 Commission to agree with us and, secondly, for the
16 Postal Service to also agree?

17 A Given everything that I'm understanding
18 between this and the next rate case, I don't think we
19 would see anything change until early 2006.

20 Q Now, I think you stated earlier that the
21 people who do the software, who construct the
22 software, are already looking at the kind of proposals
23 that not only we in this complaint, but some of the
24 ideas that the Postal Service is considering in
25 product redesign are already doing some work.

1 A Yes. In fact, at the IDEAlliance Conference
2 a couple months ago we had a panel discussion on what
3 would probably be needed.

4 We've had at least one followup meeting, and
5 I know the software vendors are kind of working as a
6 group between that group and with the Postal Service
7 actually to start working towards what would be needed
8 under a structure as what was proposed.

9 Q So that by the time actual rates would ever
10 be made effective, the software will be there that
11 will enable all publications to consider the impact on
12 them of the rates and the tradeoffs?

13 A Yes, I would expect that would happen. I
14 would also expect, given the trend of the Postal
15 Service in recent cases, that they would allow enough
16 time for folks to be able to implement new software,
17 and if you were ready before or be able to start kind
18 of doing whatever you wanted to do as soon as you were
19 ready.

20 Q Now on another subject, if rate incentives
21 of the kind and nature that have been proposed in this
22 proceeding are made effective, is there any doubt in
23 your mind that there will be a substantial increase in
24 the number of printers that both comail and
25 copalletize?

1 A I don't have any doubt, and I think it shows
2 by the fact that we talked about Perry Judd making an
3 announcement and Fry, you know, purchasing some
4 equipment from us. People are already moving in that
5 direction.

6 Q That means you're going to have a lot of
7 increased competition?

8 A That means we'll have more competition. I
9 don't know if that's the good news or the bad news.

10 Q There were some questions with respect to
11 your smaller, experimental mail pools.

12 A Yes.

13 Q If these rates were to be made effective,
14 would the publications in those small pools benefit?

15 A They would because if you looked at the
16 postage that those customers would have paid mailing
17 individually versus what they would benefit by doing
18 even the small comailing that we're doing, there's a
19 gain for them.

20 It helps to reduce, you know, whatever hit
21 there might be. It helps them move in the right
22 direction.

23 Q You stated in earlier cross-examination that
24 Quad Graphics will not accept publications printed at
25 other printers into your copalletizing dropship pools.

1 Is that correct?

2 A At this time that's correct.

3 Q Are there any consolidators in existence in
4 this country that do accept publications printed at
5 different locales and dropship them together?

6 A Yes, I know of a few consolidators that are
7 out there that today are doing dropshipping of
8 multiple clients from different printing companies,
9 and in fact at least one of those and maybe more is
10 actually moving into copalletization for those clients
11 as well.

12 Q If the rates proposed in this proceeding
13 were ever made effective, would, in your opinion,
14 there be an increase in those types of consolidators?

15 A Yes, I think you'd see more companies. More
16 distribution companies would do that.

17 In fact, because of some of the things that
18 are happening in the newsstand industry today, the
19 distribution companies that primarily handle newsstand
20 publications are already kind of looking at the
21 opportunities for them to move the product to go
22 through the mail to fill out some of their trucks
23 where they're losing maybe some newsstand copy.

24 I also think there's a real good opportunity
25 for third party business to pop up, which I mentioned

1 in my original testimony, such as consolidator of flat
2 sized mail just as there are presort bureaus and
3 parcel consolidators today, so that's another
4 opportunity for a publisher who maybe doesn't have a
5 printer who will offer them that service to either
6 find, you know, the third party that does it or, you
7 know, try and find another printer that does it.
8 There's more options than just where you're at, I
9 think.

10 MR. BURZIO: Thank you, Mr. Chairman.

11 CHAIRMAN OMAS: Thank you.

12 Mr. Straus?

13 RE-CROSS-EXAMINATION

14 BY MR. STRAUS:

15 Q Mr. Schick, do you recall discussions near
16 the end of prior rate cases between mailers and the
17 Postal Service representatives about how much notice
18 the Governors should give before implementation of new
19 rates?

20 A I do.

21 Q And were you part of the group that was
22 arguing to the Postal Service that it should give more
23 time rather than less time because that group argued
24 the software manufacturers won't even begin to change
25 their software on the basis of even the Postal Rate

1 Commission's recommended decision until the Governors
2 have actually acted?

3 A I wasn't one of the people that was arguing,
4 but I'm aware of the arguments that were made.

5 Q Do you disagree? Do you think that in prior
6 cases the software manufacturers have sprung to action
7 on the basis of, A, a rate proposal by the Postal
8 Service before the recommended decision?

9 A Well, I think in my knowledge of how the
10 software vendors kind of manage this is they'll start
11 a process when a rate case is filed or some changes
12 are proposed, and they'll do kind of the basic stuff
13 that they can, and then they'll complete it when the
14 final rate is proposed or the structure is proposed so
15 they get a little bit done, but they don't have
16 everything done, which is why they wanted the
17 additional time after the final blessing by the Board
18 of Governors.

19 Q And that's because, isn't it, they're
20 concerned that the Rate Commission won't recommend
21 exactly what the Postal Service proposes?

22 A Yes.

23 Q And the Governors may not approve exactly
24 what the Rate Commission recommends?

25 A Sure. They don't want to write some

1 software that might end up not being what the final
2 product should look like.

3 MR. STRAUS: Thank you.

4 THE WITNESS: Sure.

5 CHAIRMAN OMAS: Is there anyone else?

6 (No response.)

7 CHAIRMAN OMAS: There being no other
8 questions, Mr. Schick, that concludes your testimony
9 here today. We, the Commission, thank you for your
10 appearance and for your contribution to our record.
11 You are now excused.

12 (Witness excused.)

13 CHAIRMAN OMAS: If I may make a statement,
14 please? This morning, Mr. Straus suggested an
15 innovative procedure to allow the filing of testimony.
16 He indicated that he would be willing to submit some
17 testimony in advance of final dates for Intervenor's
18 testimony in this case in the hopes that discovery on
19 that early filing could be completed within a set
20 period of days.

21 Mr. Straus, I would like you to flush out
22 your proposal with some specifics. I assume that your
23 witnesses need to have completed responses to
24 discovery by a certain date. Please provide as soon
25 as possible, and no later than July 7, two pieces of

1 information. The first is when your witness would
2 like to be finished with the response to discovery.
3 The second is how soon that witness could provide
4 testimony.

5 After Mr. Straus provides this information
6 to the Commission, other participants will have three
7 working days in which to comment on this proposal.

8 MR. STRAUS: I can tell you right now, Mr.
9 Chairman, that I regret that I cannot comply with that
10 request. If that means that my innovative proposal
11 must await another proceeding, so be it.

12 Discussions with witnesses have by
13 necessity, because of an inability to give them dates,
14 been tentative, and I can't in the next couple of
15 days, maybe not even in the next couple of weeks, get
16 commitments to testify from witnesses who are now just
17 thinking about it.

18 One witness in particular that I'm
19 especially concerned with is a professor. Unlike most
20 witnesses who would rather do the work in September,
21 he said that if he could testify he would rather do
22 the work in the summer, but he said he has several
23 people he has to check with in his institution of
24 higher learning, as well as some of his other clients,
25 whether he can do it.

1 CHAIRMAN OMAS: Why don't you see what you
2 can come up with by the 7th and give us some --

3 MR. STRAUS: I can tell you right now I
4 cannot file anything on the 7th. If that means my
5 proposal cannot be accepted, we'll live with that.

6 What I'm about to suggest is let's say a
7 date is set. Let's say you accede to the wishes of
8 NNA and the Postal Service and the agreement of the
9 Complainants that the testimony is due shortly after
10 Labor Day. I'll just have to take my chances.

11 If in fact this witness agrees to testify
12 and if in fact I can get his testimony in in August
13 and if in fact he says he really can't be available in
14 early September, I would just then have to file a
15 motion asking you to establish for that testimony
16 discovery dates, and other parties will have a chance
17 to respond, and you will have an opportunity to either
18 grant that request or not, but --

19 CHAIRMAN OMAS: All right.

20 MR. STRAUS: -- I can't in the next several
21 days.

22 CHAIRMAN OMAS: We'll have to just take that
23 under advisement. We were just trying to be
24 cooperative.

25 MR. STRAUS: I understand. I just don't

1 have the information you need to be cooperative.

2 CHAIRMAN OMAS: Thank you.

3 On that note, this concludes today's
4 hearing. We will reconvene on Monday, July 12, to
5 receive testimony from Time Warner, et al. Witness
6 Gordon and Mitchell.

7 Thank you, and have a good holiday weekend.

8 (Whereupon, at 1:16 p.m. the hearing in the
9 above-entitled matter was adjourned, to reconvene on
10 July 12, 2004.)

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REPORTER'S CERTIFICATE

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DOCKET NO.: C 2004-1

CASE TITLE: Complaint of Time Warner Inc., et al.

HEARING DATE: 6-30-04

LOCATION: Washington, DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: 6-30-04

Alan Sun

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